

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**For the Year Ended June 30, 2006**

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

TABLE OF CONTENTS

SECTION I INTRODUCTION

- I-A Letter of Transmittal
- I-B Officers/Organizational Chart
- I-C List of Active Members

SECTION II AUDITED FINANCIAL STATEMENTS

SECTION III SUPPORTING FINANCIAL DATA

- III-A Composition of Investments
- III-B Reinsurance Receivables
- III-C Development of all Funds Combined
- III-D Development for Individual Funds

SECTION IV STATISTICAL DATA

- IV-A Comparative Statement of Revenues, Expenses and Fund Balances
- IV-B Multiple Year Comparative Membership Statistics
- IV-C Reinsurer Information

SECTION V GLOSSARY

# RISK

## Michigan Municipal MANAGEMENT AUTHORITY

### BOARD OF DIRECTORS

October 27, 2006

JAMES KOHMESCHER  
*Chairman*  
City of Wyoming

JAMES SCHARRET  
*Vice Chairman*  
City of Southfield

MICHAEL WELSCH  
*Secretary*  
Iosco County

MICHAEL BOSANAC  
Monroe County

RICHARD BURKE  
City of Ishpeming

MICHAEL DORNAN  
City of Wixom

CINDY KING  
Charter Township  
of Van Buren

LEONARD PETERS  
Eaton County

ROBERT SEETERLIN  
Charter Township  
of Waterford

THOMAS YACK  
Charter Township  
of Canton

MICHAEL L. RHYNER  
*Executive Director*

The Board of Directors  
Michigan Municipal Risk Management Authority  
Livonia, MI 48154

Michigan Municipal Risk Management Authority (MMRMA) is a public entity self-insurance pool that provides property and liability coverages to its participating Members. Membership is limited to municipal corporations as defined by Michigan statute.

MMRMA was formed in 1980 under statutes enacted to implement the authority granted by Article 7, Sections 27 and 28 of the Constitution of the State of Michigan, which authorizes local units of government to contract with each other for the joint administration of any functions or powers which each would have the power to perform separately. Public Act, 1982, No. 138 specifically authorized local units of government to contract jointly to undertake cooperative action to provide risk management and self-insurance coverages. MMRMA was incorporated January 1, 1980, as an intergovernmental agency.

MMRMA is financed by contributions from its member municipal corporations. Contributions paid by Members are based upon underwriting criteria and guidelines approved by the Board of Directors. Contributions are calculated by applying uniform base rates to the various loss exposures and using experience modification factors to set pricing. Net operating expenditures, number of employees, size and complexity of operations, loss experience, loss control efforts, and other relevant risk-related criteria are factors considered in price setting.

MMRMA has three categories of membership: Individual Members – individual municipal corporations, each maintaining a separate self-insured retention; Pool Members, an association of risk-sharing members; and Affiliated Members, which are other "Public Act 138" organizations that contract with MMRMA for certain services. The only current Affiliated Member is the Michigan Community College Risk Management Authority, which contracts with MMRMA for reinsurance, claims adjusting, and underwriting services.

Section I-A

Board of Directors  
October 27, 2006  
Page 2

Individual Members each maintain a minimum amount of funds, in an amount established by the Executive Director, on deposit with MMRMA. The Pool, acting as a single member, also maintains funds on deposit with MMRMA. Members' funds on deposit, while accounted for in the Members' Retention Fund, are used to pay claims and related loss adjustment expenses that are obligations of the Members and to cover Member meeting expenses.

Potential members who meet membership eligibility and underwriting guidelines are accepted into MMRMA upon recommendation of the MMRMA Membership Committee and with the approval of two-thirds of the total membership of the Board of Directors. Only those Michigan municipal corporations that meet standards contained in State statute are eligible to apply for membership.

### **Financial Management**

The 2006 Financial Report reflects MMRMA's twenty-sixth year of operation. The report has been prepared by Quenneville & Associates, P.L.L.C., (Q & A), the accounting firm responsible for performing all MMRMA accounting and treasury functions. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and necessarily include amounts based upon reliable estimates and judgments. MMRMA books are recorded on a full accrual basis also in accordance with accounting principle generally accepted in the United States of America. A summary of significant accounting policies is discussed in the notes to the financial statements found in the financial section.

Q & A accounts for the MMRMA's General Fund and the Member Retention Fund. In fulfilling their responsibilities, Q & A has developed a reliable system of internal controls. This system is designed to provide reasonable assurance that assets are effectively safeguarded and that transactions are executed and properly recorded with appropriate authorizations.

Plante & Moran, PLLC (PM), independent public accountants, provide an objective, independent audit of MMRMA's financial position and results of operations. PM's examination is conducted in accordance with auditing standards generally accepted in the United States. Those standards require that PM plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The audit report is submitted to the Audit Committee and the Board of Directors.

Board of Directors  
October 27, 2006  
Page 3

In addition, Tillinghast, a Towers Perrin Company, conducts independent actuarial analyses to confirm the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves. Their report is also submitted to the Board of Directors.

### The Comprehensive Annual Report

#### *Part I: Introductory Section*

Contains information regarding MMRMA's management structure, executive officers, and the financial reporting requirements set forth in Board directives. This information provides the basis for understanding the Comprehensive Annual Financial Report.

#### *Part II: Financial Statements*

Includes all financial statements prepared from MMRMA's books and records for the twenty-sixth year of operation, including Management's Discussion and Analysis of performance for the fiscal year ended June 30, 2006, which is incorporated by reference in this section. The Financial Section has been examined by MMRMA's independent public accountants, Plante & Moran, PLLC, as required by the Board of Directors. A copy of Plante & Moran's report, dated October 2006, is included in the Financial Section.

#### *Part III: Supporting Financial Data*

Contains certain data pertaining to claim reserves, investments, and administrative expenses that further support the data presented in the Financial Section. This data is of general interest to the Members and is used for future decision making. Unless otherwise indicated, the data in this section relates only to the risk retained by MMRMA. Information that appears in the Management Discussion & Analysis portion of the audited financial report is not duplicated in this report.

#### *Part IV: Statistical Data*

Contains certain data pertaining to cumulative claim activity, loss development, comparative financial information, and demographic data. Unless otherwise indicated, the data in this section relates only to the risk retained by MMRMA. The independent actuarial report prepared by Tillinghast is incorporated by reference in this report.

### Reinsurance Fund Coverages

MMRMA started carrying risk on July 1, 1985, at which time it began to participate in both the property and liability reinsurance treaties. Schedules of the last ten years of coverages follow.

Board of Directors  
October 27, 2006  
Page 4

## JULY 1, 1996 to JUNE 30, 1998

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X \$1,000,000	~
Individual Claims: \$3,000,000 X \$2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
AUTO PHYSICAL DAMAGE	100%

## JULY 1, 1998 to JUNE 30, 2002

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$1,000,000 X \$1,000,000	~
Individual Claims: \$3,000,000 X \$2,000,000	~
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
PROPERTY	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
AUTO PHYSICAL DAMAGE	100%

Board of Directors  
October 27, 2006  
Page 5

**JULY 1, 2002 to MARCH 31, 2004**

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$4,000,000 X \$1,000,000	27.5%*
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
<b>PROPERTY</b> (7/1/02 - 6/30/04)**	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
<b>AUTO PHYSICAL DAMAGE</b>	100%

\*20% until March 31, 2003; 27.5% thereafter

\*\* Note: Property terms now renew annually on July 1; Liability renews annual on April 1.

**APRIL 1, 2004 to MARCH 31, 2005**

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$4,000,000 X \$1,000,000	15%
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
<b>PROPERTY</b> 7/1/04 - 6/30/05	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
<b>AUTO PHYSICAL DAMAGE</b>	100%

Board of Directors  
October 27, 2006  
Page 6

**APRIL 1, 2005 to MARCH 31, 2006**

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$4,000,000 X \$1,000,000	100%*
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
<b>PROPERTY (7/1/05 - 6/30/06)</b>	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
<b>AUTO PHYSICAL DAMAGE</b>	100%

**APRIL 1, 2006 to MARCH 31, 2007**

LIABILITY	RETAINED
Individual Claims: \$925,000 X \$75,000	100%
Individual Claims: \$4,000,000 X \$1,000,000	100%*
Individual Claims: \$5,000,000 X \$5,000,000	~
Individual Claims: \$5,000,000 X \$10,000,000	~
Clash Coverage: \$5,000,000 X \$15,000,000	~
<b>PROPERTY (7/1/06 - 6/30/07)</b>	
Individual Claims up to \$100,000 after 10% to Member	100%
Individual Claims: \$400,000 X \$100,000	100%
<b>AUTO PHYSICAL DAMAGE</b>	100%

\*MMRMA retains 100% of this layer until a \$4 million aggregate deductible is reached.  
Any additional losses become a liability of reinsurers.



The percentages of risk retained shown in the previous tables do not include additional risk applicable to reinsurers who have commuted their losses or become insolvent. MMRMA has entered into reinsurance agreements with commercial reinsurers providing for loss coverage in excess of the amounts to be retained by MMRMA and Individual Members. This MMRMA program provides up to \$15 million of occurrence-based liability coverage for each incident. Beginning 4/1/06, MMRMA added a clash coverage layer providing an additional \$5 million in coverage.

Under the MMRMA Property Program, each individual member is provided coverage on a replacement cost basis with a maximum available amount of \$50 million on any one structure, unless specifically scheduled for additional coverage.

The Auto Physical Damage Program provides up to \$1,500,000 per occurrence. MMRMA retains 100% of the limits of coverage above the member self-insured retentions.

In lieu of the \$5 million statutorily required excess aggregate policy, MMRMA has placed a \$5 million bond on deposit with the State of Michigan as allowed by statute.

### **Self-Insured Retention**

MMRMA receives funds from its Members to cover the deductible and retention portions of their losses. An Individual Member's maximum retention on general liability and auto liability is between \$75,000 and \$1,000,000 per occurrence. The retention limits for property coverage are subject to a \$1,000 deductible with 10% of the next \$100,000 to be paid by the Member. The retention on auto physical damage coverage is \$15,000 per unit and \$30,000 per occurrence.

### **Cost Containment**

MMRMA provides its Members with a host of services to control risk with the ultimate goal of containing costs. These services are provided by a team of five risk control consultants covering both peninsulas. Exposures to loss are identified and the risk control resources are provided to eliminate or reduce such exposures. This heavy emphasis on field work affords Members with personalized contact on a regular basis.

Board of Directors  
October 27, 2006  
Page 8

In addition, MMRMA provides regional training to control losses in various areas of municipal operations. A group of eight advisory committees are utilized in this area.

- Administrative
- Parks & Recreation
- DPW
- Law Enforcement
- U.P. Law Enforcement
- Court Security
- 911/Telecommunications
- Fire/EMT

These committees consist of Member employees holding job responsibilities related to the activities of the committee. Advisory committees meeting throughout the year to produce model policies and procedures and to facilitate training activities.

### Concluding Comments

The overall financial condition of MMRMA is excellent after the twenty-sixth year of operation. MMRMA has been able to afford its Members significant cost savings, as well as providing superior coverages and services. Since its inception on January 1, 1980, MMRMA has become an indispensable alternative to commercial insurance for Michigan governmental entities.

Finally, the preparation of the Comprehensive Annual Financial Report was a collaborative effort on the part of many people at MMRMA. I expect no significant changes in the immediate future.

Respectfully submitted,

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY

Michael L. Rhyner  
Executive Director

MLR/db

Michigan Municipal Risk Management Authority  
**Comprehensive Annual Financial Report - June 30, 2006**

**BOARD OF DIRECTORS**

James Kohmescher, Chairman	<i>City of Wyoming</i>
James Scharret, Vice Chairman	<i>City of Southfield</i>
Michael Welsch, Secretary	<i>Iosco County</i>
Michael Bosanac	<i>Monroe County</i>
Richard Burke	<i>City of Ishpeming</i>
Michael Dornan	<i>City of Wixom</i>
Cindy King	<i>Charter Township of Van Buren</i>
Leonard Peters	<i>Eaton County</i>
Robert Seeterlin	<i>Charter Township of Waterford</i>
Thomas Yack	<i>Charter Township of Canton</i>

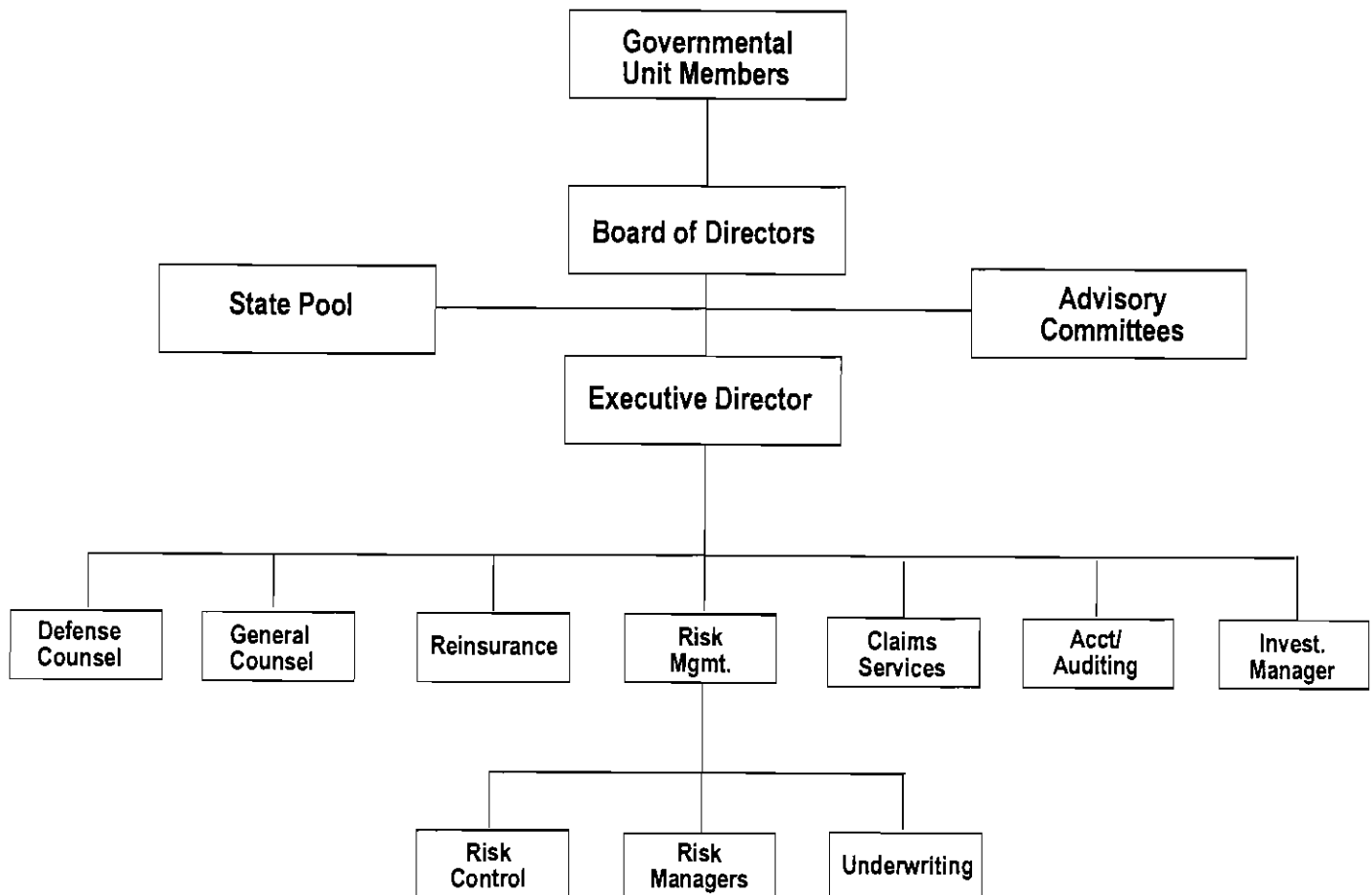
**EXECUTIVE OFFICERS**

Michael Rhyner	<i>Executive Director</i>
Michael Ellis	<i>Director of Claims</i>
Chuck Schwab	<i>Director of Risk Management</i>

Section I-B

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

**ORGANIZATIONAL CHART**  
As of JUNE 30, 2006



Michigan Municipal Risk Management Authority  
**Comprehensive Annual Financial Report - June 30, 2006**  
**MEMBERS as of JUNE 30, 2006**

911 Midland County Central Dispatch	Cheboygan, City of
23rd Circuit Court	Cheboygan County
46th Circuit Trial Court	Cheboygan Area Public Library
35th District Court	Cheboygan County Airport Authority
47th District Court	Chesaning-Brady Fire Dept.
Addison Township	Chestonia Township
Alba Fire Board	China, Charter Township of
Alger County	Chippewa County
Algonac, City of	Chippewa County EDC
Algonac Housing Commission	Chippewa River Library District
Allegan County	Clare County
Allegan County CMHS	Clawson, City of
Alma, City of	Clinton County
Ann Arbor Downtown Devel. Auth.	Copper Country Mental Health Services
Antrim County	Columbus Township
Arenac County	Dearborn Heights, City of
AuSable Valley CMHS	Delta County
Bangor, Charter Township of	DeWitt Township
Barry County	DeWitt Area Recreation Authority
Barry County CMH Authority	Dexter, Village of
Barry-Eaton District Health Dept.	Dickinson County
Bay City, City of	Dickinson County Library System
Bay County	Dickinson County Solid Waste
Bay-Arenac Behavioral Health	Dickinson-Iron District Health Dept.
Belleville, City of	District Health Dept. #10, Hart
Benzie County	Dowagiac, City of
Benzie County Council on Aging	Downriver Recreation Commission
Benzie County Medical Care Facility	E. Central Mich. Planning & Devel. Comm
Benzie-Leelanau Dist. Health Dept.	Eastpointe, City of
Berrien County	Eaton County
Berrien County CMHS	Eaton County Medical Care Facility
Beverly Hills, Village of	Emmet County
Bingham Farms, Village of	Emmett, Charter Township of
Birmingham Area Cable Board	Escanaba, City of
Bloomfield, Charter Township of	Escanaba Housing Commission
Bloomfield Hills, City of	Farmington, City of
Brady Township	Farmington Hills, City of
Branch County	Fenton, Charter Township of
Branch-Hillsdale-St. Joseph CHA	Ferndale, City of
Brandon Township	Fonda Island-Briggs Lake JWA
CCE Central Dispatch Authority	Franklin, Village of
Calhoun County	Frenchtown Township Resort Dist. Authority
Calvin Township	Garden City, City of
Canton, Charter Township of	Genesee County 911 Consortium
Caro, Village of	Genoa Township
Carson City, City of	Genoa-Osceola Water & Sewer Authority
Cass County	Gladstone, City of
Central Area Mich. Works! Consortium	Gladwin County
Central Michigan District Health Dept.	Gogebic County
Central Michigan Landfill Authority	Gogebic Medical Care Facility
Central Wayne Co. Sanitation Authority	Gogebic CMHA
	Grand Ledge, City of

## MEMBERS as of JUNE 30, 2006

Grand Ledge District Library	Livingston County CMHS
Grand Rapids, City of	Livingston Community Water Auth.
Grand Traverse County	Livonia, City of
Grand Traverse County DPW	Luce County
Grand Valley Reg. Biosolids Auth.	Ludington, City of
Gratiot County	Mackinac County
Green Oak Township	Madison Heights, City of
Grosse Pointe Shores, Village of	Manistee County
Hamburg Township	Manistee County 911 Board
Hazel Park, City of	Manistee County Transportation
Highland, Charter Township of	Manistee-Benzie CMHS
Hiawatha Behavioral Health	Manton, City of
Hillsdale County	Maple Grove Township
Howell, City of	Marquette County
Howell Area Fire Authority	Marquette County EDC
Howell Township Sanitary Sewer Dist.	Marquette Board of Light & Power
Huntington Woods, City of	Marquette County Solid Waste Landfill
Huron, Charter Township of	Marquette Housing Commission
Huron Behavioral Services	Mason, City of
Huron County	Mason County
Huron County Health Dept.	Mason/Oceana 911 Central Dispatch
Independence Township	Mecosta County
Ingham County	Meceola Consolidated Central Dispatch
Intergovern. Cable Comm. Auth.	Menominee County
Interurban Transit Authority	MHOG Water & Sewer Authority
Ionia County	Midland County
Ionia County 911	Mid-Michigan District Health Dept .
Ionia County CMHS	Mid-Mich Area Cable Comm. Consortium
Iosco County	Monroe County
Iron County	Monroe Community Mental Health Auth.
Iron Mountain, City of	Montcalm Center For Behavioral Health
Iron Mountain-Kingsford Sewage	Montmorency County
Ironwood, City of	Montmorency County Public Libraries
Isabella County	Montmorency-Oscoda-Alpena Landfill
Isabella County MCF	Mount Clemens, City of
Isabella County Transport. Comm.	Mt. Pleasant, City of
Ishpeming, City of	Municipal Employee Retirement System
Jackson County	Muskegon, City of
Jackson County MCF	Muskegon County
Kalamazoo, City of	Nankin Transit Commission
Kalamazoo County	Negaunee, City of
Kalamazoo CMH and SAS	New Buffalo, City of
Kalkaska County	Newaygo County
Keego Harbor, City of	Newaygo County Medical Care Facility
Kent County	Newaygo County Mental Health
Kimball Township	Newberry, Village of
LMAS District Health Dept.	Noble Township
Lake Angelus, City of	North Country CMHS
Lake County	Northeast Michigan CMHS
Lansing-Ingham Joint Building Auth.	Northern Lakes CMHS
Lapeer County	Northpoint Behavioral Healthcare
Lapeer District Library	Northville, City of
Leelanau County	Northville, Charter Township of
Lenawee CMHA	Northville District Library
Lilley Township	Northwest Michigan CMHS
Livingston County	Oakland County CMHS
	Oakland County Transportation

## MEMBERS as of JUNE 30, 2006

Oakley, Village of	SE Oakland County Resource Recovery Auth.
Oceana County	SE Oakland County Water Authority
Oceana County MCF	South Haven, City of
Older Persons Commission	South Lyon Housing Commission
Orchard Lake Village, City of	South Lyon Recreation
Orion Township	Southern Clinton Municipal Utilities Auth.
Osceola County	Southfield, City of
Otsego County	Southgate, City of
Owosso, City of	SW Michigan Commission
Oxford, Village of	SW Oakland Cable Commission
Paint Creek Trailways Comm	Springfield, City of
Parchment, City of	St. Clair County
Pathways	St. Clair County CMHA
Paw Paw, Village of	St. Clair Shores, City of
Pere Marquette Township	St. Ignace, City of
Pere Marquette District Library	St. Joseph, City of
Pinconning, City of	St. Joseph County
Pleasant Ridge, City of	Summit Pointe
Plymouth, Charter Township of	Summit Township
Plymouth Housing Commission	Sylvan Lake, City of
Polly Ann Trailway Management Council	Troy, City of
Pontiac, City of	Tuscola County
Port Huron, City of	Tuscola Behavioral Health System
Portage, City of	Tuscola County Health Dept.
Portage District Library	Tyrone Lake Sanitary Sewer
Public Health, Delta Menominee Counties	Upper Peninsula Public Power Agency
Redford, Charter Township of	Valley Township
Redford Township Library	Van Buren, Charter Township of
River Rouge, City of	Van Buren County CMHS
River Rouge Economic Development	Washington Township
Riverview, City of	Washtenaw Community Health Org.
Rochester Hills, City of	Waterford, Charter Township of
Roscommon County	Wayne, City of
Roscommon Transportation Authority	West Bloomfield, Charter Township of
Royal Oak, City of	West Bloomfield Parks & Rec. Comm.
Royal Oak Township	West Bloomfield Township Library
Saginaw County 911	West Michigan Shoreline Reg. Dev. Comm.
Saginaw, Charter Township of	West Michigan CMHS
Sandusky, City of	Western Mason County Fire Dist.
Sandusky Comm. Fire Dept. Assn.	Western Townships Utilities Auth.
Sanilac County CMHS	Western UP District Health Dept.
Sanilac Medical Control Auth	Westland, City of
Sauble Township	Wexford County
Saugatuck Douglas District Library	White Lake Township
Saugatuck Township Fire District	White Lake Fire Authority
Schoolcraft County	White Lake Community Library
Scottville, City of	White Pigeon Sanitary Sys.
Shiawassee County	Whitehall, City of
Shiawassee County CMHS	Wixom, City of
Shiawassee County MCF	Wyoming, City of
Shiawassee District. Library	
SEMCOG MAC	
SE Livingston County Recreation Auth.	

**MEMBERS as of JUNE 30, 2006**

**COLLEGES**

Alpena Community College  
Bay De Noc Community College  
Delta College  
Glen Oaks Community College  
Henry Ford Community College  
Kalamazoo Valley Community College  
Lake Michigan College  
Macomb Community College  
Mid Michigan Community College  
Monroe County Community College  
Montcalm Community College  
Muskegon Community College  
North Central Michigan College  
Northwestern Michigan College  
Oakland Community College  
Schoolcraft Community College  
Southwestern Michigan College  
St. Clair County Community College  
Wayne County Community College  
West Shore Community College



# **Michigan Municipal Risk Management Authority**

---

**Financial Report  
with Supplemental Information  
June 30, 2006**

# **Michigan Municipal Risk Management Authority**

---

## **Contents**

<b>Report Letter</b>	<b>1</b>
<b>Management's Discussion and Analysis</b>	<b>2-9</b>
<b>Financial Statements</b>	
Statement of Net Assets	10
Statement of Revenue, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12-13
Notes to Financial Statements	14-28
<b>Required Supplemental Information</b>	<b>29</b>
Schedule of Claims Information for All Lines of Coverage	30-31
<b>Other Supplemental Information</b>	<b>32</b>
Statement of Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract	33



Plante & Moran, PLLC  
Suite 500  
2601 Cambridge Court  
Auburn Hills, MI 48326  
Tel: 248.375.7100  
Fax: 248.375.7101  
plante Moran.com

## Independent Auditor's Report

To the Board of Directors  
Michigan Municipal Risk Management Authority

We have audited the accompanying statement of net assets of Michigan Municipal Risk Management Authority (a municipal joint venture) (the "Authority") as of June 30, 2006 and 2005 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Municipal Risk Management Authority at June 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 6 to the financial statements, during the year ended June 30, 2006, the Authority elected the early adoption of Governmental Accounting Standard Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The management's discussion and analysis (identified in the table of contents) is not a required part of the financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Michigan Municipal Risk Management Authority's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental and other supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

September 1, 2006

A member of



A worldwide association of independent accounting firms

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis**

This section of Michigan Municipal Risk Management Authority's (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the year ended June 30, 2006. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

### **Using this Annual Report**

The Authority is a public entity self-insurance pool that provides property and liability coverages to its participating members. Membership is limited to municipal corporations as defined by Michigan statute.

The Authority is financed by contributions from its member municipal corporations and these contributions are based upon underwriting criteria and guidelines approved by the board of directors. The Authority has three categories of membership: Individual members - individual municipal corporations, each maintaining a separate self-insured retention; pool members - an association of risk-sharing members; and affiliated members - other Public Act 138 organizations that contract with the Authority for certain coverages and services. The only current affiliated member is Michigan Community College Risk Management Authority, which contracts with the Authority for reinsurance, claims adjusting, and underwriting services.

Individual members each maintain a minimum amount of funds, in an amount established by the executive director, on deposit with the Authority. The pool, acting as a single member, also maintains funds on deposit with the Authority. Members' funds on deposit are accounted for on the cash basis in the Members' Retention Fund and are used primarily to pay claims and related loss adjustment expenses that are obligations of the members.

### **Financial Overview**

This annual statement consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required and other supplemental information.

The Authority's activity is maintained in one fund. The basic financial statements, which follow this section, provide both long-term and short-term information about the Authority's financial status. These basic financial statements report information about the Authority using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. These statements reflect only the risk carried by the Authority, which also includes any potential unrecoverable reinsurance claims.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

The three basic financial statements presented are as follows:

- **Statement of Net Assets** - This statement presents information reflecting the Authority's assets, liabilities, and net assets and is categorized into current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.
- **Statement of Revenues, Expenses, and Changes in Net Assets** - This statement reflects the operating and nonoperating revenue and expenses for the previous two fiscal years. Operating revenue consists primarily of member contributions, with the major sources of operating expenses being claims and claims adjustment expenses, general and administrative expenses, and reinsurance costs. Nonoperating revenue consists primarily of investment income.
- **Statement of Cash Flows** - This statement is presented on the direct method of reporting and reflects cash flows from operating activities and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash equivalents for the fiscal year.

# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The statements report the Authority's net assets and how they have changed. Net assets - the difference between the Authority's assets and liabilities - is one way to measure the Authority's financial health or position. Over time, increases and decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. Summarized financial information is as follows:

	June 30		
	2006	2005	2004
<b>Total Assets</b>			
Current assets	\$ 267,073,910	\$ 241,595,493	\$ 211,239,601
Noncurrent assets	<u>6,363,102</u>	<u>6,462,264</u>	<u>6,657,522</u>
Total assets	273,437,012	248,057,757	217,897,123
<b>Total Liabilities</b>			
Total current liabilities	75,586,576	66,753,207	62,560,383
Total noncurrent liabilities	<u>58,513,925</u>	<u>51,173,014</u>	<u>50,701,603</u>
Total liabilities	<u>134,100,501</u>	<u>117,926,221</u>	<u>113,261,986</u>
<b>Net Assets</b>			
Invested in capital assets	276,050	394,357	512,664
Net unrestricted assets	<u>139,060,461</u>	<u>129,737,179</u>	<u>104,122,473</u>
Total net assets	<u>\$ 139,336,511</u>	<u>\$ 130,131,536</u>	<u>\$ 104,635,137</u>
	Year Ended June 30		
	2006	2005	2004
<b>Revenue</b>			
Member contributions - Net	\$ 34,900,859	\$ 36,165,651	\$ 34,211,994
Electric Choice Program revenue	5,069,062	6,059,572	5,654,505
Loss contributions from associated programs	<u>1,549,100</u>	<u>1,112,711</u>	<u>1,192,629</u>
Total revenue	41,519,021	43,337,934	41,059,128
<b>Expenses</b>			
Total risk management, underwriting, and other expenses	16,097,436	15,950,094	14,590,068
Total claims and related expenses	<u>23,806,972</u>	<u>16,379,886</u>	<u>18,137,746</u>
Total expenses	<u>39,904,408</u>	<u>32,329,980</u>	<u>32,727,814</u>
<b>Operating Income</b>	1,614,613	11,007,954	8,331,314
<b>Nonoperating Revenue</b> - Net investment income	11,287,358	14,488,445	19,865,845
<b>Distribution to Members</b>	<u>(3,696,996)</u>	<u>-</u>	<u>-</u>
<b>Increase in Net Assets</b>	<u>\$ 9,204,975</u>	<u>\$ 25,496,399</u>	<u>\$ 28,197,159</u>

In addition to net assets, when assessing the overall health of the Authority, the reader needs to consider other nonfinancial factors such as the legal climate in the State of Michigan, the general state of the financial markets, and the level of risk prevention undertaken by the Authority and its members.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

The Authority cannot control the first two factors. However, since its inception, the Authority has been a leader in implementing aggressive risk prevention programs. It provides extensive training to its members in various areas of municipal operations. It makes use of several advisory committees comprised of member employees holding job responsibilities related to the activities of the committees. The advisory committees meet throughout the year to produce model policies and procedures and facilitate training in the areas of building and court security, law enforcement, parks and recreation, fire/EMS, telecommunications, employment, and public works.

### **Condensed Comparative Financial Highlights**

- Overall, the Authority's net assets increased by \$9.2 million (7 percent) from \$130.1 million to \$139.3 million.
- Total revenue decreased by \$1.8 million (4 percent) from \$43.3 million to \$41.5 million.
- Risk management, underwriting, and other administrative expenses increased by approximately \$1 million (11 percent) from \$10.1 million to \$11.1 million.
- Net contributions used to fund risk carried by the Authority decreased by approximately \$2 million (7 percent) from \$27.4 million to \$25.4 million.
- Claim payments decreased by \$660,000 (5 percent) from \$12.4 million to \$11.7 million.
- Ceded reinsurance costs increased by \$2.6 million (19 percent) from \$13.6 million to \$16.2 million.
- Reserves (reported net of estimated reinsurance recoveries), which includes reported, incurred but not reported, and unallocated loss adjustment expense, increased by approximately \$12.1 million (14 percent) from \$84.1 million to \$96.2 million.
- Investment income of \$11.3 million was earned this year compared to \$14.5 million in the prior year.

### **Cash and Cash Equivalents**

Cash and cash equivalents comprise the most significant numbers in the asset section of the Authority's statement of net assets.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

Accordingly, the board of directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction shall seek to insure that capital losses are minimized, whether caused by security defaults or decline in market value. The goal of the Authority is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account the Authority's investment risk constraints. The asset allocation plan and target is 25 percent to 5 percent to 20 percent invested in cash and equivalents.

Investment guidelines for U.S. equities provide for investing in a broadly diversified portfolio of publicly held stocks listed on U.S. stock exchanges. The manager may not invest in more than 5 percent of the outstanding securities of one issuer or invest more than 5 percent of the portfolio in the outstanding securities of one issuer.

Investment guidelines for fixed income portfolios consist primarily of diversified U.S. dollar-denominated debt securities issued by the U.S. government and its agencies and instrumentalities, other U.S.-domiciled issuers, and foreign issuers. Up to 35 percent of the portfolio may be invested (in the aggregate) in issues of mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, and asset-backed securities. Investment managers may not invest in more than 5 percent of the outstanding securities of one issue nor invest more than 5 percent of the portfolio's assets in the securities of one issuer, except for securities issued by the U.S. government and its agencies and instrumentalities or foreign sovereign issuers (as permitted by the investment guidelines).

The portfolio's debt securities must have a minimum quality rating of B by Standards & Poor's (S&P) or B2 by Moody's, or above, while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by the investment managers. The investment managers may allocate up to 20 percent of the total fixed income portfolio to issues with a credit rating below BBB- by S&P, or Baa3 by Moody's (the high yield segment) with no more than 0.5 percent of the entire fixed income portfolio in any one issuer of high yield segment securities. The investment managers may allocate up to 10 percent of the fixed income portfolio to issues denominated in currencies other than the U.S. dollar. The investment managers shall be permitted to enter into currency-forward contracts in order to hedge the portfolio's exposure to foreign currency.

The portfolio is expected to be fully invested at all times. However, the manager may raise cash if it deems it appropriate.

Investment guidelines for cash and cash equivalent portfolios are to follow the American Banking Association investment standards for security type, quality, and maturity for short-term investment funds (STIF), with money market funds exempted.

Currently, all investments of the Authority are professionally managed in both passive index and active funds and held in trust by Comerica Bank.



# Michigan Municipal Risk Management Authority

## Management's Discussion and Analysis (Continued)

A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

### Reserves for Unpaid Claims

The Authority's most significant numbers in the liability section of the statement of net assets are the reserves for reported, incurred but not reported claims, and claim adjustment expenses. Tillinghast, a Towers Perrin Company, conducts an independent actuarial analysis to determine the adequacy and reasonableness of such reserves.

### Budgetary Highlights

The budget for the year ended June 30, 2006 was approved by the board of directors during its June 2005 meeting. The budget was amended to include the cost of state-mandated assessments for 2006, which were formerly paid through the Members' Retention Fund.

	Budgeted	Actual	Variance Positive (Negative)
Revenues:			
Members	\$ 51,368,162	\$ 51,240,151	\$ (128,011)
Affiliate	1,385,293	1,549,100	163,807
Investment income	8,000,000	11,287,358	3,287,358
Total revenues	60,753,455	64,076,609	3,323,154
Expenditures:			
Membership services	18,169,000	16,741,222	1,427,778
Administration	2,224,031	2,797,345	(573,314)
Claims services	1,751,247	1,958,011	(206,764)
Risk management	5,299,617	5,307,365	(7,748)
Information	903,221	563,723	339,498
Total expenditures	28,347,116	27,367,666	979,450
Claims paid	18,500,000	11,740,640	6,759,360
Excess revenue	<u>\$ 13,906,339</u>	24,968,303	<u>\$ 11,061,964</u>
Increase in reserves**		(12,066,332)	
Excess of revenues over expenses		<u>\$ 12,901,971</u>	

\*\* Not a budgeted item

Total resources actually received by the Authority exceeded budgeted amounts by \$3.3 million or 5.5 percent. Member and affiliate contributions were \$36,000 over budget (.07 percent) and the Authority experienced an \$11.3 million investment gain rather than the \$8 million that was budgeted, resulting in the overall increase.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

Membership services expenditures were under the budgeted amount by \$1.4 million or 8 percent. This was due primarily to the fact that reinsurance costs were not finalized until after the budget was approved.

Administrative services expenses were over budget by \$573,000, or 26 percent, due primarily to the transfer of employees from the risk management to the administrative services department, higher general legal payments, and the recording of the unfunded portion of the postretirement health benefit (health plan).

Claims services expenses were over budget by \$207,000, or 12 percent, due primarily to the recording of the unfunded portion of the health plan mentioned above. This expense was offset by a decrease in personnel costs due to an unfilled position.

Risk management expenses were over budget by \$8,000, or 0.1 percent, due to the recording of the unfunded portion of the health plan and higher payments for RAP grants. These increases were offset by reduced personnel costs due to the transfer of some employees to the administrative services department.

Information services expenses were under budget by \$339,000, or 38 percent. Although this department also saw increases due to the recording of the unfunded portion of the health plan, this was offset by the postponement to fiscal year 2007 of the budgeted expenses for new software development.

Claims and legal expenses paid during the year were \$11.7 million or 37 percent under budget. The actual payment of claims depends on many factors and varies from year to year.

In total, the Authority had budgeted a net revenue over expense amount of \$14 million. The Authority experienced an increase in the actuarially determined incurred but not reported (IBNR) reserves and the addition of the unfunded portion of the postretirement health benefit. This was offset by higher than budgeted investment income, lower than budgeted reinsurance costs, and a decrease in claims paid. The net result for the fiscal year was a \$12.9 million increase in net assets for the year.

### **Capital Assets**

The Authority owns its office building located in Livonia, Michigan. It was built at a cost of \$1.8 million and is being depreciated on a straight-line basis over 15 years. The State of Michigan requires that furniture and equipment be expensed when purchased. Computer equipment may be capitalized, however, any computer equipment would essentially be fully depreciated or would fall below the Authority's capitalization policy. Therefore, no furniture, general equipment, or computer equipment is shown on the statements of net assets.

# **Michigan Municipal Risk Management Authority**

## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and Next Year's Budget**

The reinsurance industry continues to respond to catastrophic losses as well as to continuing uncertain investment market conditions. In this uncertain climate, the Authority plans to hold sufficient net assets to act as a contingency for uncollectible reinsurance. Net assets will also provide protection from reserve deficiencies, investment volatility, and new, unexpected or catastrophic claims.

### **Contacting the Authority's Management**

This financial report is designed to provide our members, customers, and the general public with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, contact the Authority office at 14001 Merriman Road, Livonia, Michigan 48154. The telephone number is 734-513-0300.

# Michigan Municipal Risk Management Authority

## Statement of Net Assets

	June 30	
	2006	2005
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 14,640,247	\$ 23,773,456
Member contributions receivable	5,930,826	7,513,496
Reinsurance recoverable	1,745,437	9,481,121
Fixed maturities at fair value (Note 5)	87,325,533	80,402,917
Equity securities at fair value (Note 5)	152,347,813	118,337,532
Prepaid expenses and other current assets	5,084,054	2,086,971
Total current asset	267,073,910	241,595,493
Noncurrent assets:		
Restricted investment (Notes 1 and 5)	5,000,000	5,000,000
Investments	1,087,052	1,067,907
Office building - Net of accumulated depreciation (Note 1)	276,050	394,357
Total assets	273,437,012	248,057,757
<b>Liabilities</b>		
Current liabilities:		
Reserve for claims and claim adjustment expenses reported (Note 3)	9,026,898	8,114,982
Reserve for claims and claim adjustment expenses incurred but not reported (Note 3)	28,650,141	24,836,636
Reinsurance premiums and casualty treaty adjustments payable	204,671	145,531
Accrued expenses	2,244,900	1,652,613
Distributions payable	3,696,996	-
Pending trades (Note 5)	613,669	2,425,739
Unearned contributions	12,602,871	13,380,165
Member funds held on deposit (Note 2)	18,546,430	16,197,541
Total current liabilities	75,586,576	66,753,207
Noncurrent liabilities:		
Reserve for claims and claim adjustment expenses reported - Net of current portion (Note 3)	14,019,128	12,602,358
Reserve for claims and claim adjustment expenses incurred but not reported - Net of current portion (Note 3)	44,494,797	38,570,656
Total noncurrent liabilities	58,513,925	51,173,014
Total liabilities	134,100,501	117,926,221
<b>Net Assets</b>		
Invested in capital assets	276,050	394,357
Net unrestricted assets	139,060,461	129,737,179
Total net assets	<u>\$ 139,336,511</u>	<u>\$ 130,131,536</u>

# Michigan Municipal Risk Management Authority

## Statement of Revenue, Expenses, and Changes in Net Assets

	Years Ended June 30	
	2006	2005
<b>Operating Revenue</b>		
Member contributions - Gross of reinsurance	\$ 51,119,008	\$ 49,758,286
Member contributions - Ceded	(16,218,149)	(13,592,635)
Net member contributions	34,900,859	36,165,651
Electric Choice program revenue	5,069,062	6,059,572
Loss contributions from associated programs	1,549,100	1,112,711
Total revenue	41,519,021	43,337,934
<b>Operating Expenses - Risk management, underwriting, and other expenses</b>		
Risk management expenses	3,127,212	3,232,824
Executive office, underwriting, claims, and other expenses	8,022,305	6,837,626
Electric Choice Program expenses	4,947,919	5,879,644
Total risk management, underwriting, and other expenses	16,097,436	15,950,094
Net contributions available for claims and related expenses	25,421,585	27,387,840
<b>Claims and Related Expenses</b>		
Claims and claim adjustment expenses paid - Gross of subrogation and reinsurance recoveries	13,482,204	26,062,941
Reinsurance recoveries on claims and claims adjustment expenses	(1,741,564)	(13,661,971)
Change in net reserve for claims and claim adjustment expenses	2,328,686	2,898,756
Change in net reserve for claims and claim adjustment expenses incurred but not reported	9,737,646	1,080,160
Total claims and related expenses	23,806,972	16,379,886
<b>Operating Income</b>	1,614,613	11,007,954
<b>Nonoperating Income (Expense)</b>		
Net increase in fair value of investments	1,040,844	1,707,584
Investment income	11,207,950	13,542,068
Interest expense on member funds held on deposit	(961,436)	(761,207)
Net nonoperating income	11,287,358	14,488,445
<b>Distribution to Members</b>	(3,696,996)	-
<b>Increase in Net Assets</b>	9,204,975	25,496,399
<b>Net Assets - Beginning of year</b>	130,131,536	104,635,137
<b>Net Assets - End of year</b>	<b>\$ 139,336,511</b>	<b>\$ 130,131,536</b>

# Michigan Municipal Risk Management Authority

## Statement of Cash Flows

	Years Ended June 30	
	2006	2005
<b>Cash Flows from Operating Activities</b>		
Cash received from members	\$ 51,743,209	\$ 49,009,885
Member fund deposits received	18,546,430	15,761,241
Cash payments to suppliers for goods and services	(10,428,961)	(21,631,065)
Electric Choice program revenue received	5,250,237	6,304,549
Electric Choice program expenses paid	(5,226,341)	(5,791,506)
Loss contributions from associated programs	1,549,100	1,112,711
Risk management and accounting expenses paid	(3,188,478)	(3,005,662)
Executive office, underwriting, claims, and other expenses paid	(7,623,164)	(7,317,335)
Interest paid on member funds held on deposit	(961,436)	(761,207)
Member fund claims and related payments	(15,492,201)	(15,320,674)
Claims and claims adjustment expenses paid	(11,740,640)	(12,400,969)
Net cash provided by operating activities	22,427,755	5,959,968
<b>Cash Flows from Investing Activities</b>		
Proceeds from sales and maturities of investments	286,395,760	167,256,569
Purchases of investments	(328,203,238)	(193,666,981)
Investment income received	10,246,514	12,780,681
Net cash used in investing activities	(31,560,964)	(13,629,731)
<b>Net Decrease in Cash and Cash Equivalents</b>	(9,133,209)	(7,669,763)
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>23,773,456</u>	<u>31,443,219</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 14,640,247</b></u>	<u><b>\$ 23,773,456</b></u>

# Michigan Municipal Risk Management Authority

## Statement of Cash Flows (Continued)

	Years Ended June 30	
	2006	2005
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>		
Operating income	\$ 1,614,613	\$ 11,007,954
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	118,307	118,308
Changes in assets and liabilities:		
Member contributions receivable	1,582,670	(2,651,420)
Reinsurance recoverable	7,735,684	(7,007,369)
Prepaid expenses and other (includes purchased interest)	(4,260,980)	(1,794,519)
Reserves for claims and claim adjustments expenses	12,066,332	3,978,916
Reinsurance premiums and casualty treaty adjustments payable	59,140	(137,658)
Accrued expenses	592,287	297,760
Distributions payable	3,696,996	-
Unearned contributions	(777,294)	2,147,996
Net cash provided by operating activities	<b>\$ 22,427,755</b>	<b>\$ 5,959,968</b>

# **Michigan Municipal Risk Management Authority**

---

## **Notes to Financial Statements June 30, 2006 and 2005**

### **Note 1 - Nature of Entity and Significant Accounting Policies**

The Michigan Municipal Risk Management Authority (the "Authority") was established in January 1980 pursuant to the laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege, or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services for general and auto liability, motor vehicle physical damage, and property; purchase or otherwise provide for reinsurance or excess insurance or make other provisions for payment of losses and related expenses in excess of risk retained by the Authority; and provide claims, legal defense, and related general administrative services to members. During 2001, the Authority established the Electric Choice Program, under which eligible Michigan local communities can purchase electric energy wholesale for their own use. On behalf of the communities, the Authority negotiates and enters into contracts to purchase electric energy for municipal purposes.

Any member may withdraw from the Authority at the end of any anniversary year by giving at least 90 days notice in writing of its desire to withdraw. Any member withdrawing from the Authority while having a positive balance in its funds held on deposit may withdraw such funds less projected allocated claims expenses. Any member withdrawing from the Authority having a negative balance in its funds held on deposit account shall repay the Authority such negative balance and claims expenses incurred. At the request of the withdrawing member, the Authority shall continue to service any pending claim and the member shall reimburse the Authority for claims expenses incurred. Coverage in excess of the Members' retention shall not be afforded withdrawing members for claims not serviced by the Authority.

The Authority prepares a detailed budgetary schedule of the administrative expenses to the state prior to the beginning of each fiscal year. The fundamental purpose of budgetary control is to plan for the expected level of operations and to provide management with a tool to control deviation from such plan.

The accompanying financial statements are presented using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America.



# Michigan Municipal Risk Management Authority

---

## Notes to Financial Statements June 30, 2006 and 2005

### Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Authority has elected to adopt statements or interpretations of the Financial Accounting Standards Board (FASB) that are issued after November 30, 1989 unless GASB specifically adopts pronouncements that conflict with or contradict such FASB statements or interpretations.

The Authority distinguishes operating revenue and expenses from nonoperating revenue and expenses. Operating revenue and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenue and expenses of the Authority relate to premium revenue and claims and administrative expenses. Premium contributions received covering future contract periods are deferred and recognized over the related contract periods. Net investment earnings are reported as nonoperating revenue.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash and all liquid securities with maturities of 90 days or less when purchased.

**Member Contributions Receivable and Reinsurance Receivable** - Receivables from members are stated at net invoice amount and receivables from reinsurers are computed based on the applicable treaty. Collectibility of balances are reviewed periodically. Any amounts deemed uncollectible are written off at that time. No allowance for bad debts has been recorded because management considers all member and reinsurance receivables to be collectible.

**Investments** - The Authority is invested primarily in fixed maturity securities and mutual fund shares which are stated at fair value as determined by quoted market prices. Investments in proprietary funds offered by Comerica Bank are valued at the quoted market value provided by the bank. All investment income, including changes in the fair value of investments, is recognized as revenue in the statements of revenue, expenses, and changes in net assets.

**Restricted Investment** - The Authority has a \$5 million bond held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

# Michigan Municipal Risk Management Authority

---

## Notes to Financial Statements June 30, 2006 and 2005

### Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

**Office Building** - The office building is recorded at cost and is being depreciated on a straight-line basis over 15 years. The cost of the office building is \$1,774,609 at both June 30, 2006 and 2005. Accumulated depreciation at June 30, 2006 and 2005 is \$1,498,559 and \$1,380,252, respectively. Depreciation expense for 2006 and 2005 was \$118,307 and \$118,308, respectively.

**Unearned Contributions** - Unearned contributions represent contributions invoiced during the year, which cover a period extending beyond the end of the fiscal year and, thus, remain unearned as of year end.

**Distributions Payable** - The Authority recognizes a liability for member distributions when the distributions have been approved by the Authority's board of directors.

**Reserves for Claims and Claim Adjustment Expenses** - The Authority establishes claims liabilities based on estimates of the ultimate cost of claims, including future allocated and unallocated claims adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoveries are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in estimating claims liabilities does not necessarily result in an exact amount, particularly for coverage such as general liability. Claims liabilities are estimated periodically using a variety of actuarial and statistical techniques to produce current estimates that reflects recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. The Authority retains a qualified, independent actuarial firm to perform an annual actuarial review of the risk retained by the Authority. Premium deficiency is defined as the amount by which expected claims costs (including IBNR) and all expected claims adjustment expenses exceed related unearned premiums. The Authority has determined that a premium deficiency does not exist. In making this determination, management has taken into consideration anticipated investment income.

# Michigan Municipal Risk Management Authority

---

## Notes to Financial Statements June 30, 2006 and 2005

### Note 1 - Nature of Entity and Significant Accounting Policies (Continued)

**Member Contributions** - Member contributions related to amounts to be expended for reinsurance coverage, claim payments in excess of individual members' self-insured retentions, and certain general and administrative expenses are recognized as revenue in the year to which they apply. Member loss contributions are determined in accordance with the terms of the joint exercise of powers agreement (JPA) and underwriting guidelines established by the Authority. The JPA is the primary governing document for the Authority.

Member contributions related to claims costs that fall within the members' self-insured retention are reflected as member funds held on deposit. Member contributions for this are determined in accordance with the terms of the JPA. The executive director of the Authority may authorize distributions to individual members in the event that their funds held on deposit are determined to be sufficient to do so.

**Federal Income Tax Status** - The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. This law allows local governmental units to provide joint funding for risk management and self-insurance purposes and, as such, are not subject to federal income tax under Internal Revenue Code Section 115 of 1986.

**Risk Management** - The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates related to allowances for unsettled claims and claims incurred but not reported are described in Note 3.

**Accounting Change - GASB Statement No. 45** - Effective July 1, 2005, Michigan Municipal Risk Management Authority implemented the provisions of Governmental Accounting Standard Board (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 2 - Member Funds Held on Deposit

This account consists of those economic resources of the members held by the Authority used for obligations of the members including loss payments and defense costs up to the members' self-insured retention amounts. Member funds on deposit earn interest based on their share of the fixed income portfolio return. In addition, economic resources in this account are used to pay certain other legal and meeting expenses of the members. It has been included in the accompanying financial statements as liability for the amount received but not yet earned or expended on claims costs.

The following is a summary of the change in member funds held on deposit during the years ended June 30:

	<u>2006</u>	<u>2005</u>
Member contributions	\$ 16,879,654	\$ 16,565,774
Claims and related costs:		
Member claims and claims adjustment costs		
paid - Net of subrogation receipts	14,788,555	12,575,923
General legal fees	192,512	194,628
State assessments and direct meeting costs	123,093	1,906,125
Funds distributed to members	<u>388,041</u>	<u>643,998</u>
Total claims and related costs	<u>15,492,201</u>	<u>15,320,674</u>
Excess of member contributions before interest		
over claims and related costs	1,387,453	1,245,100
Interest on member funds	<u>961,436</u>	<u>761,207</u>
Excess of member contributions and interest over		
claims and related costs	2,348,889	2,006,307
Member funds held on deposit - Beginning of year	<u>16,197,541</u>	<u>14,191,234</u>
Member funds held on deposit - End of year	<u>\$ 18,546,430</u>	<u>\$ 16,197,541</u>

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 3 - Allowances for Unsettled Claims and Claims Incurred but Not Reported

The following table represents changes in the unpaid claims for the Authority for the years ended June 30:

	<u>2006</u>	<u>2005</u>
Unpaid claims and claims adjustment expenses - Beginning of fiscal year	\$ 84,124,632	\$ 80,145,716
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	31,662,762	31,715,164
Change in provision for insured events of prior fiscal years	<u>(7,855,790)</u>	<u>(15,335,278)</u>
Total incurred claims and claims adjustment expenses	23,806,972	16,379,886
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	(1,900,861)	(1,641,060)
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	<u>(9,839,779)</u>	<u>(10,759,910)</u>
Total payments	<u>(11,740,640)</u>	<u>(12,400,970)</u>
Unpaid claims and claims adjustment expenses - End of fiscal year	<u>\$ 96,190,964</u>	<u>\$ 84,124,632</u>

The provision for insured events of prior fiscal years decreased during 2006 and 2005 due to claims settling for amounts different from those originally estimated. The decrease was attributable to favorable claim settlements achieved through facilitation where several high profile claims were settled below the initial reserve estimates. Included in the provision for insured events of prior fiscal years are expenses related to events that occurred in previous years, but which do not require refunds of premiums to members.

# Michigan Municipal Risk Management Authority

---

## Notes to Financial Statements June 30, 2006 and 2005

### Note 4 - Loss Coverage

Loss coverage for general and auto liability and property is structured on a three-layer basis with each member retaining a portion of its losses. The layers are divided into three levels of risk retention whereby the members, the Authority, and the reinsurance carriers share the risk. Loss coverage for auto physical damage is shared between the members and the Authority.

**Member Retention Level** - A member's self-insured retention varies depending on the type of claim and the agreement entered into with the Authority. The table below displays the amount of risk retained by the members for general and auto liability, property, and auto physical damage.

**Authority Retained Risk Program** - This program consists of those economic resources of the Authority which have been restricted to pay losses incurred by members which exceed the members' (self-insurance retention layer) SIR and are not covered under existing reinsurance agreements. During 2006 and 2005, the Authority agreed to retain certain levels of risk, rather than obtaining coverage through reinsurance agreements. The table below presents a summary of the amount of risk retained by the Authority for general and auto liability, property, and auto physical damage.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 4 - Loss Coverage (Continued)

**Reinsurance Agreements** - The Authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority or the members. The table below displays the amount of risk retained by the reinsurer for general and auto liability, property, and auto physical damage.

Policy	Member SIR	Authority Coverage	Reinsurance
General and Auto Liability	\$50,000 to \$75,000 (1) per occurrence	Individual claims between members' SIR and \$1,000,000 and 100 percent of the next \$4,000,000 (2)	Individual claims in excess of the Authority's coverage up to \$15 million per occurrence (3)  Individual claims resulting from terrorism in excess of the Authority's coverage up to \$4 million over the life of the treaty
Property	\$1,000 deductible plus 10 percent up to \$100,000 per occurrence (6)	90 percent of the first \$100,000 after the deductible, plus 100 percent of the next \$400,000 per occurrence	Individual claims in excess of the Authority's coverage up to the predetermined maximum limits for each member (4)  Individual claims resulting from terrorism in excess of the Authority's coverage up to \$25 million over the life of the treaty
Auto Physical Damage	\$15,000 per unit and \$30,000 (5) per occurrence	Individual claims up to \$1,500,000 after members' SIR	No reinsurance coverage

- (1) certain members have higher retention levels and/or deductibles
- (2) MMRMA retains 100 percent of this layer until a \$4 million aggregate is reached; any additional losses become the liability of the reinsurers
- (3) certain members have higher limits of liability per occurrence
- (4) limit based on value of property being insured
- (5) after a \$1,000 deductible
- (6) some members have higher deductibles

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be paid by the Authority using funds contributed by members for this purpose.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 4 - Loss Coverage (Continued)

The Authority has also retained some risk for an intergovernmental agency that is an affiliated entity but not a member of the organization. As such, a portion of the activity recorded relates to this organization. Contributions paid by this organization for the coverage levels are shown as loss contributions from associated programs. The Authority is responsible for payment of unreimbursed claims due to insolvent reinsurers for this organization.

**Member Stop-loss Program** - In addition to the member coverage described above, the Authority provides optional stop-loss coverage to members to limit the aggregate losses paid by one member in any one year. The Authority has entered into an agreement with participating members whereby total paid losses in any one fiscal year, net of reinsurance recoveries, which are in excess of a predetermined entry point will be paid by the stop-loss program. Allocations to the stop-loss program are based on a percent of contributions.

The following table summarizes the net impact of reinsurance arrangements on member contributions and claims and claims adjustment expenses paid:

	Years Ended June 30	
	2006	2005
Member contributions:		
Direct	\$ 51,119,008	\$ 49,758,286
Ceded	<u>(16,218,149)</u>	<u>(13,592,635)</u>
Net member contributions	<u>\$ 34,900,859</u>	<u>\$ 36,165,651</u>
Claims and claim adjustment expenses paid	\$ 13,482,204	\$ 26,062,941
Reinsurance recoveries	<u>(1,741,564)</u>	<u>(13,661,971)</u>
Net claims and claim adjustment expenses paid	<u>\$ 11,740,640</u>	<u>\$ 12,400,970</u>



# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 5 - Investments

The Authority's investment policy authorizes the Authority to make deposits in custodial banks that are appointed upon the recommendation of the executive director.

The Authority's investments are held in the Authority's name. The Authority has designated Comerica Bank for the deposit of its investments.

The overall asset mix of the fund, measured by market value, shall be as follows:

	<u>Maximum</u>	<u>Minimum</u>	<u>Target</u>
Equities	60%	25%	50%
Fixed income	75%	35%	40%
Cash equivalents	20%	5%	10%

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk of bank deposits. At year end, the Authority's deposit balance of \$528,191, had \$428,191 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority, with the assistance of the independent investment consultant, periodically evaluates the performance of the custodial bank and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities. The Authority's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Authority's cash requirements.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 5 - Investments (Continued)

At June 30, 2006, the Authority had the following investments:

Investment Type (Comerica Defined)	Market Value		Weighted Average Maturity Date	Years
	(Including Accruals)			
U.S. government	\$ 29,078,387		6/24/2010	4
U.S. government agencies	2,247,256		11/20/2008	2.4
Mortgage backed securities	7,749,488		5/25/2026	19.9
Collateralized obligations	10,604,973		3/22/2036	29.7
Asset-backed securities	7,245,121		9/4/2012	6.2
Municipal bonds	142,448		3/26/2013	6.7
Corporate bonds	23,739,546		7/7/2013	7
Foreign bonds and notes	7,146,264		1/11/2011	4.5
Private placements	4,109,612		3/27/2013	6.7
Bank pooled funds	152,347,813		N/A	N/A
Derivatives	262,438		N/A	N/A
Pending trades	(613,669)		N/A	N/A
Total fair value	\$ 244,059,677			

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 5 - Investments (Continued)

At June 30, 2005, the Authority had the following investments:

Investment Type (Comerica Defined)	Market Value (Including Accruals)	Weighted Average Maturity Date	Years
U.S. government	\$ 21,419,746	7/25/2010	5
U.S. government agencies and asset backed	8,021,308	11/6/2027	22
State and municipal	240,337	7/10/2018	13
Corporate	34,103,246	8/27/2010	5
Corporate asset backed	13,052,087	7/21/2026	21
Private placements	3,012,761	9/23/2014	9
Foreign government and agencies	1,808,757	6/25/2017	12
Foreign corporate	1,586,900	6/23/2009	4
Other debt securities	2,157,731	11/11/2031	26
Bank pooled funds	118,337,532	N/A	N/A
Euro/USD currency forward - Net	44	N/A	N/A
Pending trades	(2,425,739)	N/A	N/A
Total fair value	<u>\$ 201,314,710</u>		

**Credit Risk** - The Authority has an investment policy that prohibits the following investments: warrants, options, futures, collectibles, leveraged securities, or investment strategies, external mutual funds, hedge funds, equity investments in LLCs, unit investment trusts, margin purchases, short sales, securities of corporation service providers, and loaning or pledging securities.

The portfolio's debt securities must have a minimum quality rating of B by Standard & Poors, while the overall portfolio should have an average minimum quality rating of A or its equivalent as determined in good faith by the Authority.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 5 - Investments (Continued)

At June 30, 2006, the credit quality ratings of debt securities, without regard to investment type, are as follows:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 47,821,702
AA	3,957,375
A	12,839,787
BBB	13,866,787
BB	2,428,285
B	1,894,245
NR	8,480,740
Total	<u>\$ 91,288,921</u>

At June 30, 2005, the credit quality ratings of debt securities, without regard to investment type, are as follows:

<u>Rating</u>	<u>Fair Value</u>
AAA	\$ 48,599,935
AA	2,983,220
A	16,659,873
BBB	21,403,962
BB	4,111,544
B	239,341
Total	<u>\$ 93,997,875</u>

The rating organization used by the Authority to rate its investments is Standard & Poor's.

**Concentration of Credit Risk** - Equity portfolios must consist of well-diversified, publicly held stocks, listed on U.S. stock exchanges. The Authority may not invest in more than 5 percent of the outstanding securities of one issuer nor invest more than 5 percent of the portfolio's assets in the outstanding securities of one issuer. There were no investments that individually exceed 5 percent of the Authority's total investments at June 30, 2006 and 2005.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates.

# Michigan Municipal Risk Management Authority

---

## Notes to Financial Statements June 30, 2006 and 2005

### Note 6 - Employee Benefits

**Defined Contribution Plans** - The Authority funds a 401(a) defined contribution plan (the "Plan") which provides retirement benefits to its employees. Amounts contributed to the Plan by the Authority are based on 15 percent of the executive director's W-2 income and 12 percent of all other employees' W-2 income. Effective May 2005, amounts contributed to the Plan by the Authority are based on 12 percent of all other employees' W-2 income. An employee must be employed one year before becoming eligible. Contributions were approximately \$221,000 and \$250,000 in fiscal years 2006 and 2005, respectively.

Effective January 1, 2005, the Authority adopted a health care savings plan with MERS (the "HCSP"), a defined contribution health plan, established to fund employee health benefits after termination of employment. All employees that are eligible for the Plan are also eligible for the HCSP. The HCSP is funded entirely by Authority contributions and is based on a formula which results in the same amount being contributed for each eligible employee. The investment balances can be used by the terminating employee for eligible benefits under the program. After remitting the Authority's contribution for the employees, the Authority is not liable for any additional costs related to terminating employees. Upon commencement of the HCSP plan, the Authority funded an amount to recognize prior service costs. During the years 2006 and 2005, the Authority contributed \$49,000 and \$64,000, respectively.

The Authority also allows eligible employees the option of deferring compensation to future periods. The eligible employee can elect to have a portion of his or her salary remitted to the International City Managers Association for future withdrawal as compensation. The Authority does not maintain the deferred compensation funds and does not defer this compensation cost. As such, included in the statements of revenue, expenses, and changes in net assets are compensation expenses earned by employees during the year, regardless of whether the employees receive funds for compensation or elect to defer a portion of their compensation through this program.

**Defined Benefit Plan** - Effective January 1, 2005, the Authority adopted a retiree health benefit program. The program provides limited retiree health and Medicare supplemental coverage for all full-time employees who terminate after January 1, 2005 with a minimum age of 57 years and minimum service of 10 years. The Authority is responsible for a portion of benefit costs based on age and years of service, subject to a maximum payment of costs of \$1,000 per month per retiree, increased by 2.5 percent each year after 2006, with any excess funded by retiree contributions. There were 15 participants in the program, of which one was eligible to receive benefits at June 30, 2006.

# Michigan Municipal Risk Management Authority

## Notes to Financial Statements June 30, 2006 and 2005

### Note 6 - Employee Benefits (Continued)

The Authority has established a segregated trust under the supervision of the Municipal Employee's Retirement System to accumulate funds for payment of future benefits. At June 30, 2006 no trust contributions have been made. Upon adoption, the Authority elected to accrue the full actuarially computed liability. The Authority fully funded the liability in October 2006. The annual required contributions (ARC), as computed by the actuary, will be reported as expense and fully funded on an annual basis over eligible employees' future service periods.

**Funded Status and Funding Progress** - As of July 1, 2005, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$1,001,612, and the value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,001,612. The Authority accrued an additional \$67,820, which represents an estimate of the expense for the year ended June 30, 2006.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Significant actuarial assumptions used in determining the annual OPEB cost include (a) rate of return on the investments of present and future assets of 8.0 percent, compounded annually, (b) projected annual salary increases of 4.5, plus a percentage based on age, related to a scale that reflects merit, longevity and promotional salary increases, and (c) amortization method level dollar over a 30-year period.

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
7/1/2005	\$ -	\$ 1,001,612	\$ (1,001,612)	0.00%

### Note 8 - Litigation Matters

The Authority is involved in various litigation and legal matters, which are being defended and handled in the ordinary course of business. The costs of any claims ultimately paid to cover the Authority's portion of a legal obligation with respect to these matters constitute expenses to the Authority. In the opinion of the Authority's management and legal counsel, the ultimate resolution of these various litigation issues will not have a material effect on the Authority and its members.

## **Required Supplemental Information**

---

# **Michigan Municipal Risk Management Authority**

## **Required Supplementary Information Schedule of Claims Information for All Lines of Coverage**

The table on the following page illustrates how the Authority's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of each of the last 10 years. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- (2) This line shows each fiscal year's other operating costs of the Authority, including overhead and claims expenses not allocable to individual claims.
- (3) This line shows the Authority's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued), as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
- (6) This section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, and emergence of new claims not previously known.
- (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought.

As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.



# Michigan Municipal Risk Management Authority

## Required Supplementary Information Schedule of Claims Information for All Lines of Coverage (Continued)

Fiscal Year Ended June 30	1997	1998	1999	2000	2001	2002	2003*	2004*	2005	2006
(1) Required contributions and investment revenue:										
Earned	\$ 36,597,113	\$ 45,337,083	\$ 45,905,155	\$ 53,398,313	\$ 39,151,457	\$ 13,694,683	\$ 43,545,899	\$ 57,799,986	\$ 63,651,858	\$ 62,914,622
Ceded	5,771,614	5,109,520	6,311,948	7,623,509	7,673,013	12,751,916	3,247,813	14,069,985	13,592,635	16,218,149
Net earned	30,825,499	40,227,563	39,593,207	45,774,804	31,478,444	942,767	40,298,086	43,730,001	50,059,223	46,696,473
(2) Unallocated expenses*	5,550,003	6,379,930	6,700,960	7,258,409	7,742,554	7,875,954	12,671,134	11,048,572	10,070,451	17,663,152
Policy Year Ended June 30 (in thousands)										
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	21,195	23,498	27,828	23,060	45,115	28,080	34,113	30,169	37,548	37,146
Ceded	152	2,500	143	102	19,978	1,127	7,047	2,627	5,833	5,483
Net incurred	21,043	20,998	27,685	22,958	25,137	26,953	27,066	27,542	31,715	31,663
(4) Net paid (cumulative) as of:										
End of policy year	1,328	1,230	2,833	1,297	3,593	1,721	2,836	1,352	1,641	1,901
One year later	3,637	3,236	4,514	3,285	5,965	4,342	5,040	5,393	4,625	-
Two years later	8,433	7,250	7,185	7,452	8,595	6,188	8,280	7,397	-	-
Three years later	10,573	12,213	8,784	12,117	10,875	7,309	10,064	-	-	-
Four years later	13,044	13,781	10,461	14,339	11,040	7,796	-	-	-	-
Five years later	15,079	14,486	11,516	15,706	11,574	-	-	-	-	-
Six years later	16,324	15,286	11,597	16,084	-	-	-	-	-	-
Seven years later	18,428	15,833	11,612	-	-	-	-	-	-	-
Eight years later	18,567	15,885	-	-	-	-	-	-	-	-
Nine years later	19,413	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded claims and expenses	24	57	25	20	363	12	4,850	3,214	2,723	5,482
(6) Re-estimated incurred claims and expenses:										
End of policy year	21,041	20,998	27,685	22,958	25,137	26,953	27,066	27,542	31,715	31,663
One year later	20,062	22,244	23,777	20,213	28,572	21,691	25,489	26,407	28,786	-
Two years later	18,481	19,432	16,639	21,333	23,867	18,160	21,056	21,877	-	-
Three years later	17,490	18,804	15,694	19,048	17,678	13,062	20,406	-	-	-
Four years later	18,764	16,386	12,619	19,260	14,248	13,092	-	-	-	-
Five years later	18,236	16,376	12,897	18,599	14,468	-	-	-	-	-
Six years later	18,049	16,796	11,958	18,051	-	-	-	-	-	-
Seven years later	19,609	16,387	11,811	-	-	-	-	-	-	-
Eight years later	19,507	16,374	-	-	-	-	-	-	-	-
Nine years later	19,470	-	-	-	-	-	-	-	-	-
(7) Decrease in estimated incurred claims and expenses, end of policy year	(1,573)	(4,624)	(15,874)	(4,907)	(10,669)	(13,861)	(6,660)	(5,665)	(2,929)	-

\* The unallocated expenses line item for 2004 and 2003 includes \$1,927,432 and \$4,182,106, respectively, related to unallocated loss adjustment expense (ULAE) that applies to 2004 and prior policy years.

## **Other Supplemental Information**

---

# Michigan Municipal Risk Management Authority

## Statement of Reconciliation of Unpaid Claims and Claims Adjustment Expense Liability by Type of Contract (in thousands)

	Fiscal and Policy Years Ended June 30						
	2006			2005			
	Auto		Total	Auto		Total	
	Liability	Property		Physical	Damage		
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ 82,075	\$ 1,926	\$ 84,125	\$ 124	\$ 78,550	\$ 1,471	\$ 80,145
Incurred claims and claims adjustment expenses:							
Provision for insured events of the current fiscal year	29,307	2,218	31,662	137	29,189	2,384	31,715
Change in provision for insured events of prior fiscal years	(7,006)	(795)	(7,855)	(54)	(15,544)	193	(15,335)
Total incurred claims and claims adjustment expenses	22,301	1,423	23,807	83	13,645	2,577	16,380
Payments:							
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	(502)	(1,355)	(1,901)	(44)	(394)	(1,181)	(1,641)
Claims and claims adjustment expenses attributable to insured events of prior fiscal years	(8,983)	(793)	(9,840)	(64)	(9,726)	(941)	(10,759)
Total claims and claims adjustment expenses payments	(9,485)	(2,148)	(11,741)	(108)	(10,120)	(2,122)	(12,400)
Total unpaid claims and claims adjustment expenses liability at end of the fiscal year	\$ 94,891	\$ 1,201	\$ 96,191	\$ 99	\$ 82,075	\$ 1,926	\$ 84,125



**TOWERS  
PERRIN**

TILLINGHAST

October 25, 2006

Mr. Michael L. Rhyner  
Executive Director  
Michigan Municipal Risk Management Authority  
14001 Merriman  
Livonia, Michigan 48154

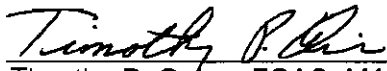
Dear Mr. Rhyner:

Enclosed is our statement of actuarial opinion dated October 25, 2006 concerning the loss and loss expense liabilities as shown in the audited Annual Financial Statement of the Michigan Municipal Risk Management Authority (MMRMA) for the year ended June 30, 2006.

The opinion is rendered for the sole purpose of attachment to the above described financial statement in accordance with regulatory requirements of the State of Michigan. Publication in any other manner, or use for any other purpose, is expressly prohibited without our prior written consent.

The calculations underlying our findings are contained in our report on the June 30, 2006 loss and loss adjustment expense reserves for MMRMA.

**TOWERS PERRIN**

By:   
Timothy P. Quinn, FCAS, MAAA, ARM  
Consulting Actuary

TPQ/vjb

Enclosure

## STATEMENT OF ACTUARIAL OPINION

Audited Financial Statement of the Michigan Municipal Risk Management Authority

For the Year Ended June 30, 2006

Page 1 of 4

### IDENTIFICATION

I, Timothy P. Quinn, am associated with the Tillinghast business of Towers Perrin. I am a member of the American Academy of Actuaries and meet its qualification standards for signing statements of actuarial opinion regarding property and casualty insurance company statutory Annual Statements. I am a Fellow of the Casualty Actuarial Society. I have been requested by the Michigan Municipal Risk Management Authority ("MMRMA") to render this opinion.

### SCOPE

I have examined the reserves listed below, as shown in the Annual Statement of the MMRMA as prepared for filing with state regulatory officials, as of June 30, 2006.

	Amount
A. Reserve for claims and claim adjustment expenses reported	\$23,046,026
B. Reserve for claims and claim adjustment expenses incurred but not reported	\$73,144,938
Total	\$96,190,964

My examination of the loss and loss adjustment expense reserves was based upon data and related information prepared by the MMRMA. In this regard, I relied on Michael L. Rhyner, Executive Director, Michigan Municipal Risk Management Authority, as to the accuracy and completeness of the data. I evaluated the data used directly in my analysis for reasonableness and consistency. My evaluation did not reveal any data points materially affecting my analysis that fell outside of the range of reasonable possibilities. In performing this evaluation, I have assumed that the MMRMA (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. In other respects, my examination included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

My review was limited to items A and B above, and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.

## STATEMENT OF ACTUARIAL OPINION

Audited Financial Statement of the Michigan Municipal Risk Management Authority

For the Year Ended June 30, 2006

Page 2 of 4

My opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance other than cessions to those companies listed in the attached exhibit is valid and collectible. The majority of the MMRMA's ceded loss and loss adjustment expense reserves are with companies rated "A" or better by a reputable insurance rating agency, or are fully collateralized. Other cessions are not material. In addition, the MMRMA has represented to me that other than those companies listed in the attached exhibit, it knows of no uncollectible reinsurance cessions. I have not anticipated any contingent liabilities that could arise if the reinsurers do not meet their obligations to the MMRMA as reflected in the data and other information provided to me.

I do not believe that there are significant risks and uncertainties that could result in material adverse deviation in the loss and loss adjustment expense reserves. In consideration of the use of this opinion for purposes of solvency monitoring, I consider \$34,834,128 to be material for the MMRMA, calculated as 25% of net assets (surplus). The absence of such risks and uncertainties at this time does not imply that factors will not be identified in the future as having been a significant influence on the MMRMA's reserves.

The MMRMA does not discount loss and loss adjustment expense reserves.

### OPINION

In my opinion, the amounts recorded in the audited financial statement for the sum of items A and B above:

- a) meet the requirements of the insurance laws of Michigan;
- b) are consistent with amounts computed in accordance with the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practice promulgated by the Actuarial Standards Board; and
- c) make a reasonable provision for all unpaid loss and loss expense obligations of the MMRMA under the terms of its contracts and agreements.

### VARIABILITY

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss expenses, it is necessary to project future loss and loss adjustment expense payments. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.

STATEMENT OF ACTUARIAL OPINION

Audited Financial Statement of the Michigan Municipal Risk Management Authority

For the Year Ended June 30, 2006

Page 3 of 4

Further, my projections make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the MMRMA's historical data base or which are not yet quantifiable.

An actuarial report, including underlying workpapers supporting the findings expressed in this statement of actuarial opinion, has been provided to the MMRMA to be retained for a period of seven years at its administrative offices and available for regulatory examination.

This statement of opinion is solely for the use of, and only to be relied upon by, the MMRMA and the State of Michigan insurance department with which it files its audited financial statement.

Date: October 25, 2006



---

Timothy P. Quinn, FCAS, MAAA, ARM  
Towers Perrin  
525 Market Street, Suite 2900  
San Francisco, CA 94105  
(612) 805-7497

STATEMENT OF ACTUARIAL OPINION

Audited Financial Statement of the Michigan Municipal Risk Management Authority

For the Year Ended June 30, 2006

Page 4 of 4

**EXHIBIT**

**Uncollectible and Commuted Reinsurance Cessions  
(as identified by MMRMA)**

Aneco  
Caribbean Re  
Continental Ins. Co. (Southplace Synd., Maiden Lane Synd.)  
Coronet Insurance Company  
Dominion  
First Security Casualty Company  
Florida Insurance Exchange  
Folsam International Ins. Co. GBR  
Forum Re  
Hemisphere Insurance Company  
IL Ins. Exch. (Transco Syndicate #1)  
Imperial Casualty  
Interamerica  
Municipal General Insurance Co.  
The Mutual Fire, Marine and Inland Insurance Co.  
NEM Reinsurance Corporation  
NYIE (Burt Syndicate, First New York and Kansa General)  
Transit Casualty  
Ultimate Insurance Company  
U.S. International Re



Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

COMPOSITION OF INVESTMENTS  
AS OF JUNE 30, 2006

	<u>Carrying Value</u>	<u>Market Value</u>
<b>Mutual Funds - Equities</b>		
World Asset Management	\$ 77,082,344	\$75,778,525
Mid Cap Index and Large Cap Growth & Value		
BZW Barclays Global Investors Core Small Cap	<u>54,885,843</u>	<u>76,569,288</u>
<b>Total Equity Portfolio</b>	<b><u>\$131,968,187</u></b>	<b><u>\$152,347,813</u></b>
<b>Fixed Income Investments</b>		
U.S. Treasury Bond held in escrow by State of Michigan	<u>\$4,943,742</u>	<u>\$5,000,000</u>
Hartford Investment Management		
U.S. Government	\$25,486,200	\$24,078,388
U.S. Government Agencies & Asset Backed	10,314,178	9,996,744
Collateralized Obligations	11,329,052	10,604,973
Asset Backed Securities	7,423,415	7,245,121
Municipal Bonds	144,821	142,448
Corporate Bonds	24,364,813	23,739,546
Foreign Bonds & Notes	7,557,006	7,146,264
Private Placements	4,243,649	4,109,612
Derivatives	<u>262,756</u>	<u>262,437</u>
<b>Total Hartford Portfolio</b>	<b><u>\$91,125,890</u></b>	<b><u>\$87,325,533</u></b>
Pending Trades	<u>(613,669)</u>	<u>(613,669)</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$227,424,150</u></b>	<b><u>244,059,677</u></b>

The Board of Directors has established an investment policy with an overall objective of moderate growth of assets consistent with lower fluctuations of market values and protection against erosion of purchasing power caused by inflation. Each investment transaction shall seek to ensure that capital losses are minimized whether caused by security defaults or decline in market value. The goal of MMRMA is to attain, on the total portfolio, an above-market average rate of return throughout economic cycles, taking into account MMRMA's investment risk constraints. The asset allocation plan and target is 25% to 60% invested in U.S. equities, 35% to 75% in fixed income and 5% to 20% in cash and cash equivalents. For additional information on the types of equity and fixed income securities that are permitted, please refer to the Management's Discussion and Analysis letter elsewhere in this report. Currently, all of MMRMA's investments are professionally managed and held in trust by Comerica Bank. A \$5 million bond is held in escrow by the State of Michigan in lieu of an excess aggregate policy as required by statute.

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

REINSURANCE RECEIVABLE ANALYSIS  
AS OF JUNE 30, 2006

<u>Fiscal Year</u>	<u>Total Billed as of June 30, 2006</u>	<u>Received as of June 30, 2006</u>	<u>Receivable as of June 30, 2006</u>
1995 and prior	\$ 107,225,269	\$ 106,929,561	\$ 295,708
1996	4,769,216	4,769,216	0
1997	11,414,218	11,398,758	15,460
1998	8,949,791	8,949,791	0
1999	1,092,977	1,092,670	307
2000	1,797,739	1,797,739	0
2001	8,826,463	7,617,580	1,208,883
2002	98,469	98,469	0
2003	5,857,798	5,632,974	224,824
2004	2,032,303	2,032,303	0
2005	870,494	870,239	255
2006	0	0	0
<b>TOTALS</b>	<b><u>\$152,934,737</u></b>	<b><u>\$151,189,300</u></b>	<b><u>\$1,745,437</u></b>

Note: The audited Statement of Financial Position as of June 30, 2006 shows a reinsurance receivable of \$ 1,745,437. Of that amount, \$1,448,909 has been submitted to reinsurers for recovery of claim payments and is represented in the aging schedule below.

Aging

0 - 90 days	0
91 - 180 days	0
181 days and over	\$ 1,448,909

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

AGING OF REINSURANCE RECOVERABLE ON  
FINALIZED AND SUBMITTED LOSSES

As of June 30, 2006

<u>Name of Reinsurer</u>	<u>Location</u>	<u>Amount</u>
Hartford Fire Insurance Co.	Connecticut	\$ 49,295
St. Paul Fire & Marine Ins. Co.	Minnesota	38,290
Westchester Fire Ins. Co.	New York	780,223
Federal Insurance Co.	Indiana	340,837
Trenwick America Reins. Corp.	Connecticut	224,804
Security Ins. Co. of Hartford	Connecticut	15,460
<b>TOTAL</b>		<b><u>\$1,448,909</u></b>

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

CEDED REINSURANCE AS OF JUNE 30, 2006

Reinsurer's NAIC or AAIN Number	Name of Reinsurer	Location or Domicile (U.S.)	Reinsurance Recoverable On Paid Losses	Reinsurance Recoverable On Reported & IBNR Undiscounted
24767	St. Paul Fire & Marine Insurance Co.	Minnesota	38,329	1,349,500
24902	Security Insurance Co. Of Hartford	Connecticut	15,460	554
20443	Continental Casualty Company	Illinois	44,414	60,048
20699	ACE Property & Casualty	Pennsylvania	81	4,900,828
AA-3190770	ACE Tempest Reins. Co. Ltd.	Bermuda	0	3,377
39675	PMA Capital Insurance Co.	Pennsylvania	2	1,252,860
38636	Partner Reins. Co. Of the U.S.	New York	47	1,955,875
34894	Trenwick America Reins Corp.	Connecticut	224,806	1,338
23043	Liberty Mutual Ins. Co.	Massachusetts	0	433,902
AA-1121300	SCOR (UK) Company, Ltd.	United Kingdom	0	24,347
22969	GE Reinsurance Company	Illinois	80,064	5,642,516
30058	SCOR Reinsurance Company	New York	44,455	117,983
29700	North American Elite Ins. Co.	New Hampshire	29,571	747
38776	Folksamerica Reinsurance Co.	New York	44,412	41,441
21121	Westchester Fire Ins. Co.	New York	780,223	51,233
20281	Federal Insurance Co.	Indiana	340,860	17,468
19682	Hartford Fire Insurance Co.	Connecticut	49,368	69,819
32603	Berkley Insurance Co.	Delaware	44,429	34,074
AA-1121425	Terra Nova	United Kingdom	0	3,283
11687	Government Entities Mutual	Washington DC	45	662,158
33197	Cologne	Connecticut	8,871	169
10357	Platinum Underwriters	Maryland	0	154,121
		<b>TOTALS</b>	<b>\$1,745,437</b>	<b>\$16,777,641</b>

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2006  
Paid Losses: All Funds

Accident Year	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
1997 & prior	\$73,105,100	\$83,835,199	\$94,267,606	\$98,348,900	\$101,482,139	\$104,644,488	\$107,086,537	\$107,182,652	\$107,423,871	\$109,000,364
1998		\$1,223,678	\$3,230,065	\$7,243,357	\$12,206,785	\$13,774,456	\$14,480,845	\$15,280,909	\$15,801,710	\$15,853,631
1999			\$2,832,575	\$4,514,233	\$7,184,892	\$8,784,286	\$10,461,415	\$11,515,510	\$11,590,899	\$11,605,640
2000				\$1,296,666	\$3,284,861	\$7,451,550	\$12,117,426	\$14,339,013	\$15,155,401	\$15,533,491
2001					\$3,593,302	\$5,965,106	\$8,594,641	\$10,875,026	\$11,035,246	\$11,569,638
2002						\$1,720,524	\$4,342,116	\$6,188,463	\$7,308,676	\$7,795,351
2003							\$2,886,167	\$5,039,848	\$8,280,087	\$10,039,035
2004								\$1,352,547	\$5,392,842	\$7,397,081
2005									\$1,641,060	\$4,625,203
2006										\$1,900,861
Total	\$73,105,100	\$85,058,877	\$100,330,246	\$111,403,155	\$127,751,978	\$142,340,410	\$159,969,147	\$171,773,968	\$183,629,793	\$195,320,295

Loss Payments During:

Accident Year	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior	\$10,311,705	\$10,730,099	\$10,432,407	\$4,081,294	\$3,133,239	\$3,162,349	\$2,442,049	\$96,115	\$241,219	\$1,576,493	\$109,000,364
1998		\$1,223,678	\$2,006,387	\$4,013,292	\$4,963,428	\$1,567,672	\$706,389	\$800,064	\$520,801	\$51,921	\$15,853,631
1999			\$2,832,575	\$1,681,658	\$2,670,659	\$1,599,394	\$1,677,129	\$1,054,095	\$75,389	\$14,740	\$11,605,640
2000				\$1,296,666	\$1,988,195	\$4,166,689	\$4,665,876	\$2,221,587	\$816,389	\$378,089	\$15,533,491
2001					\$3,593,302	\$2,371,804	\$2,629,535	\$2,280,385	\$160,220	\$534,392	\$11,569,638
2002						\$1,720,524	\$2,621,592	\$1,846,347	\$1,120,213	\$486,675	\$7,795,351
2003							\$2,153,681	\$2,153,681	\$3,240,239	\$1,758,949	\$10,039,035
2004								\$1,352,547	\$4,040,295	\$2,004,239	\$7,397,081
2005									\$1,641,060	\$2,984,143	\$4,625,203
2006										\$1,900,861	\$1,900,861
Total	\$10,311,705	\$11,953,777	\$15,271,369	\$11,072,910	\$16,348,823	\$14,588,432	\$17,628,737	\$11,804,821	\$11,855,824	\$11,690,502	\$195,320,295

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2006  
Case Reserves: All Funds

Accident Year	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
1997 & prior	\$12,533,951	\$10,514,553	\$9,071,170	\$8,311,289	\$6,285,414	\$3,660,341	\$1,749,206	\$1,048,313	\$1,587,473	\$41,028
1998		\$2,395,448	\$6,449,256	\$5,645,241	\$2,894,910	\$1,139,380	\$1,229,151	\$1,037,581	\$325,889	\$351,554
1999			\$1,015,202	\$2,600,967	\$2,367,687	\$3,736,978	\$1,246,221	\$933,185	\$138,562	\$145,355
2000				\$1,126,627	\$3,628,456	\$4,883,273	\$2,645,636	\$2,559,583	\$1,996,065	\$1,397,157
2001					\$4,401,804	\$5,084,771	\$5,812,157	\$2,428,598	\$1,762,648	\$2,105,829
2002						\$1,346,932	\$1,782,919	\$2,336,172	\$2,523,638	\$3,900,532
2003							\$2,038,722	\$4,941,765	\$3,856,587	\$4,953,407
2004								\$2,533,387	\$4,301,103	\$4,444,415
2005									\$4,225,374	\$4,252,900
2006									\$1,453,850	
Total	\$12,533,951	\$12,910,001	\$16,535,628	\$17,684,124	\$19,578,271	\$19,851,675	\$16,504,012	\$17,818,584	\$20,717,339	\$23,046,027

Accident Year	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior	\$1,780,205	(\$2,019,398)	(\$1,443,383)	(\$759,881)	(\$2,025,875)	(\$2,625,073)	(\$1,911,135)	(\$700,893)	\$539,160	(\$1,546,445)	\$41,028
1998		\$2,395,448	\$4,053,808	(\$804,015)	\$2,750,331	(\$1,755,530)	\$89,771	(\$191,570)	(\$711,692)	\$25,665	\$351,554
1999			\$1,015,202	\$1,585,765	(\$233,280)	\$1,369,291	(\$2,490,757)	(\$313,036)	(\$794,623)	\$6,793	\$145,355
2000				\$1,126,627	\$2,501,829	\$1,254,817	(\$2,237,637)	(\$86,053)	(\$563,518)	(\$598,908)	\$1,397,157
2001					\$4,401,804	\$682,967	\$727,386	(\$3,383,559)	(\$665,950)	\$343,181	\$2,105,829
2002						\$1,346,932	\$435,987	\$553,253	\$187,466	\$1,376,894	\$3,900,532
2003							\$2,038,722	\$2,903,043	(\$1,085,178)	\$1,096,820	\$4,953,407
2004								\$2,533,387	\$1,767,716	\$143,312	\$4,444,415
2005									\$4,225,374	\$27,526	\$4,252,900
2006										\$1,453,850	\$1,453,850
Total	\$1,780,205	\$376,050	\$3,625,627	\$1,148,496	\$1,894,147	\$273,404	(\$3,347,663)	\$1,314,572	\$2,898,755	\$2,328,688	\$23,046,027

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2006  
Reported Losses (Paid Losses Plus Case Reserves): All Funds

Accident Year	Evaluation (as of) Date:										
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	
1997 & prior											
1998	\$85,639,051	\$94,349,752	\$103,338,776	\$106,660,189	\$107,767,553	\$108,304,829	\$108,835,743	\$108,230,965	\$109,011,344	\$109,041,392	
1999		\$3,619,126	\$9,679,321	\$12,888,598	\$15,101,695	\$14,913,836	\$15,709,996	\$16,318,490	\$16,127,599	\$16,205,185	
2000			\$3,847,777	\$7,115,200	\$9,552,579	\$12,521,264	\$11,707,636	\$12,448,695	\$11,729,461	\$11,750,995	
2001				\$2,423,293	\$6,913,317	\$12,334,823	\$14,763,062	\$16,898,596	\$17,151,466	\$16,930,648	
2002					\$7,995,106	\$11,049,877	\$14,406,798	\$13,303,624	\$12,797,894	\$13,675,467	
2003						\$3,067,456	\$6,125,035	\$8,524,635	\$9,832,314	\$11,695,883	
2004							\$4,924,889	\$9,981,613	\$12,136,674	\$14,992,442	
2005								\$3,885,934	\$9,693,945	\$11,841,496	
2006								\$5,866,434		\$8,878,103	
Total	\$85,639,051	\$97,968,878	\$116,865,874	\$129,087,280	\$147,330,250	\$162,192,086	\$176,473,159	\$189,592,552	\$204,347,132	\$218,366,322	

Incremental Losses Reported During:

Accident Year	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior											
1998	\$12,091,910	\$8,710,701	\$8,989,024	\$3,321,413	\$1,107,364	\$537,276	\$530,914	(\$604,778)	\$780,379	\$30,048	\$109,041,392
1999		\$3,619,126	\$6,060,195	\$3,209,277	\$2,213,097	(\$187,858)	\$796,160	\$608,494	(\$190,891)	\$77,586	\$16,205,185
2000			\$3,847,777	\$3,267,423	\$2,437,379	\$2,968,685	(\$813,628)	\$741,059	(\$719,234)	\$21,533	\$11,750,995
2001				\$2,423,293	\$4,490,024	\$5,421,506	\$2,428,239	\$2,135,534	\$252,871	(\$220,819)	\$16,930,648
2002					\$7,995,106	\$3,054,771	\$3,356,921	(\$1,103,174)	(\$505,730)	\$877,573	\$13,675,467
2003					\$0	\$3,067,456	\$3,057,579	\$2,399,600	\$1,307,679	\$1,863,569	\$11,695,883
2004							\$4,924,889	\$5,056,724	\$2,155,061	\$2,855,769	\$14,992,442
2005								\$3,885,934	\$5,808,011	\$2,147,551	\$11,841,496
2006									\$5,866,434	\$3,011,669	\$8,878,103
Total	\$12,091,910	\$12,329,827	\$18,896,996	\$12,221,406	\$18,242,970	\$14,861,836	\$14,281,074	\$13,119,393	\$14,754,579	\$14,019,190	\$218,366,321

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development through June 30, 2006  
Closed Claim Counts: All Funds

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
1997	1,554									
1998		2,629	2,904	3,072	3,179	3,240	3,259	3,271	3,272	3,286
1999		1,390	2,326	2,572	2,745	2,874	2,918	2,986	2,989	3,002
2000			1,672	2,693	2,933	3,124	3,198	3,291	3,356	3,362
2001				1,381	2,360	2,627	2,782	2,903	2,931	2,947
2002					1,874	3,145	3,382	3,576	3,666	3,722
2003						1,805	2,706	2,920	3,053	3,115
2004							1,823	2,933	3,121	3,255
2005								1,614	3,104	3,285
2006									1,490	2,368
Total	1,554	4,019	6,902	9,718	13,091	16,815	20,068	23,494	26,982	29,820



MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development ending June 30, 2006  
Reported Claim Counts: All Funds

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
1997	2,474	3,028	3,172	3,214	3,244	3,250	3,290	3,290	3,290	3,290
1998		2,660	3,114	3,236	3,278	3,285	2,980	3,011	3,012	3,012
1999			2,341	2,759	2,899	2,965	3,298	3,368	3,368	3,372
2000				2,650	3,093	3,234	2,940	2,976	2,976	2,976
2001					2,306	2,772	3,667	3,746	3,756	3,759
2002						3,112	3,001	3,135	3,180	3,187
2003							2,816	3,200	3,312	3,346
2004								2,695	3,388	3,511
2005									2,182	2,608
2006										2,003
Total	2,474	5,688	8,627	11,859	14,820	18,618	21,992	25,421	28,464	31,064

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2006  
Paid Losses: Auto and General Liability

Accident Year	Evaluation (as of) Date:										
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	05-06	Total
1997 & prior	\$62,817,285	\$73,275,118	\$83,455,934	\$87,546,768	\$90,682,366	\$93,848,171	\$96,296,083	\$96,397,677	\$96,642,352	\$98,221,725	
1998		\$187,433	\$1,007,301	\$4,981,711	\$9,951,298	\$11,518,174	\$12,224,563	\$13,024,627	\$13,531,776	\$13,583,697	
1999			\$1,077,850	\$1,910,475	\$4,354,055	\$5,953,209	\$7,630,338	\$8,684,433	\$8,750,085	\$8,764,825	
2000				\$651,602	\$1,549,419	\$5,618,248	\$10,271,625	\$12,494,450	\$13,312,130	\$13,703,313	
2001					\$2,275,663	\$3,911,632	\$6,532,569	\$8,813,544	\$8,973,039	\$9,508,466	
2002						\$1,073,077	\$2,838,737	\$4,644,053	\$5,770,164	\$6,268,707	
2003							\$801,676	\$1,744,369	\$4,929,519	\$6,689,323	
2004								\$300,185	\$3,375,539	\$5,298,521	
2005									\$394,372	\$2,573,210	
2006										\$502,088	
Total	\$62,817,285	\$73,462,551	\$85,541,085	\$95,090,556	\$108,812,801	\$121,922,511	\$136,595,591	\$146,103,338	\$155,678,976	\$165,113,874	

Accident Year	Loss Payments During:										
	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior	\$8,190,671	\$10,457,833	\$10,180,816	\$4,090,834	\$3,135,598	\$3,165,805	\$2,447,912	\$101,594	\$244,675	\$1,579,373	\$98,221,726
1998		\$187,433	\$819,868	\$3,974,410	\$4,969,587	\$1,566,876	\$706,389	\$800,064	\$507,149	\$51,921	\$13,583,697
1999			\$1,077,850	\$832,625	\$2,443,580	\$1,599,154	\$1,677,129	\$1,054,095	\$65,652	\$14,740	\$8,764,825
2000				\$651,602	\$897,817	\$4,068,829	\$4,653,377	\$2,222,825	\$817,680	\$391,182	\$13,703,313
2001					\$2,275,663	\$1,635,969	\$2,620,937	\$2,280,975	\$159,495	\$535,427	\$9,508,466
2002						\$1,073,077	\$1,765,660	\$1,805,316	\$1,126,111	\$498,543	\$6,268,707
2003							\$801,676	\$942,693	\$3,185,150	\$1,759,804	\$6,689,323
2004								\$300,185	\$3,075,354	\$1,922,982	\$5,298,521
2005									\$394,372	\$2,178,838	\$2,573,210
2006										\$502,088	
Total	\$8,190,671	\$10,645,266	\$12,078,534	\$9,549,471	\$13,722,245	\$13,109,709	\$14,673,080	\$9,507,747	\$9,575,638	\$9,434,898	\$165,113,874

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2006  
Case Reserves: Auto and General Liability

Accident Year	Evaluation (as of) Date:										
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	Total
1997 & prior											
1998	\$11,893,170	\$10,129,655	\$9,063,570	\$8,244,812	\$6,280,814	\$3,660,341	\$1,749,206	\$1,048,313	\$1,587,473	\$41,028	\$41,028
1999		\$1,768,770	\$6,407,670	\$5,636,168	\$2,894,700	\$1,139,380	\$1,229,151	\$1,037,581	\$325,889	\$351,554	\$351,554
2000			\$394,329	\$2,379,291	\$2,367,642	\$3,736,978	\$1,246,221	\$933,185	\$138,562	\$145,355	\$145,355
2001				\$282,614	\$3,555,197	\$4,873,495	\$2,645,636	\$2,559,583	\$1,996,065	\$1,397,157	\$1,397,157
2002					\$3,868,578	\$5,059,031	\$5,799,557	\$2,415,998	\$1,762,648	\$2,105,829	\$2,105,829
2003						\$318,600	\$1,701,576	\$2,318,791	\$2,511,038	\$3,900,532	\$3,900,532
2004							\$889,103	\$4,831,945	\$3,856,587	\$4,953,407	\$4,953,407
2005								\$2,040,821	\$4,223,922	\$4,444,415	\$4,444,415
2006									\$3,021,727	\$4,172,519	\$4,172,519
Total	\$11,893,170	\$11,898,425	\$15,865,569	\$16,542,885	\$18,966,931	\$18,787,826	\$15,260,450	\$17,186,217	\$19,423,911	\$22,494,480	\$22,494,480

Accident Year	Loss Payments During:										
	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior											
1998	\$1,958,057	(\$1,763,515)	(\$1,066,085)	(\$818,758)	(\$1,963,998)	(\$2,620,473)	(\$1,911,135)	(\$700,893)	\$539,160	(\$1,546,445)	\$41,028
1999		\$1,768,770	\$4,638,900	(\$771,502)	(\$2,741,468)	(\$1,755,320)	\$89,771	(\$191,570)	(\$711,692)	\$25,665	\$351,554
2000			\$394,329	\$1,984,962	(\$11,649)	\$1,369,336	(\$2,490,757)	(\$313,036)	(\$794,623)	\$6,793	\$145,355
2001				\$282,614	\$3,272,583	\$1,318,298	(\$2,227,859)	(\$86,053)	(\$563,518)	(\$598,908)	\$1,397,157
2002					\$1,190,453	\$1,190,453	\$740,526	(\$3,383,559)	(\$653,350)	\$343,181	\$2,105,829
2003					\$318,600	\$318,600	\$1,382,976	\$617,215	\$192,247	\$1,389,494	\$3,900,532
2004							\$889,103	\$3,942,842	(\$975,358)	\$1,096,820	\$4,953,407
2005								\$2,040,821	\$2,183,101	\$220,493	\$4,444,415
2006									\$3,021,727	\$1,150,792	\$4,172,519
Total	\$1,958,057	\$5,255	\$3,967,144	\$677,316	\$2,424,046	(\$179,105)	(\$3,527,376)	\$1,925,767	\$2,237,694	\$3,070,569	\$22,494,480

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
Loss Development through June 30, 2006  
Reported Losses (Paid Losses Plus Case Reserves): Auto and General Liability

Accident Year	Evaluation (as of) Date:										
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	
1997 & prior	\$74,710,455	\$83,404,773	\$92,519,504	\$95,791,580	\$96,963,180	\$97,508,512	\$98,045,289	\$97,445,990	\$98,229,825	\$98,262,753	
1998		\$1,956,203	\$7,414,971	\$10,617,879	\$12,845,998	\$12,657,554	\$13,453,714	\$14,062,208	\$13,857,665	\$13,935,251	
1999			\$1,472,179	\$4,289,766	\$6,721,697	\$9,690,187	\$8,876,559	\$9,617,618	\$8,888,647	\$8,910,180	
2000				\$934,216	\$5,104,616	\$10,491,743	\$12,917,261	\$15,054,033	\$15,308,195	\$15,100,470	
2001					\$6,144,241	\$8,970,663	\$12,332,126	\$11,229,542	\$10,735,687	\$11,614,295	
2002						\$1,391,677	\$4,540,313	\$6,962,844	\$8,281,202	\$10,169,239	
2003							\$1,690,779	\$6,576,314	\$8,786,106	\$11,642,730	
2004								\$2,341,006	\$7,599,461	\$9,742,936	
2005									\$3,416,099	\$6,745,729	
2006										\$1,484,772	
Total	\$74,710,455	\$85,360,976	\$101,406,654	\$111,633,441	\$127,779,732	\$140,710,337	\$151,856,040	\$163,289,555	\$175,102,887	\$187,608,354	

Incremental Losses Reported During:											
Accident Year	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior	\$10,148,728	\$8,694,318	\$9,114,731	\$3,272,076	\$1,171,600	\$545,332	\$536,777	(\$599,299)	\$783,835	\$32,928	\$98,262,753
1998		\$1,956,203	\$5,458,768	\$3,202,908	\$2,228,119	(\$188,444)	\$796,160	\$608,494	(\$204,543)	\$77,586	\$13,935,251
1999			\$1,472,179	\$2,817,587	\$2,431,931	\$2,968,490	(\$813,628)	\$741,059	(\$728,971)	\$21,533	\$8,910,180
2000				\$934,216	\$4,170,400	\$5,387,127	\$2,425,518	\$2,136,772	\$254,162	(\$207,726)	\$15,100,470
2001					\$6,144,241	\$2,826,422	\$3,361,463	(\$1,102,584)	(\$493,855)	\$878,608	\$11,614,295
2002						\$1,391,677	\$3,148,636	\$2,422,531	\$1,318,358	\$1,888,037	\$10,169,239
2003							\$4,885,535	\$4,885,535	\$2,209,792	\$2,856,624	\$11,642,730
2004							\$2,341,006	\$2,341,006	\$5,258,455	\$2,143,475	\$9,742,936
2005									\$3,416,099	\$3,329,630	\$6,745,729
2006										\$1,484,772	\$1,484,772
Total	\$10,148,728	\$10,650,521	\$16,045,678	\$10,226,787	\$16,146,291	\$12,930,604	\$11,145,704	\$11,433,514	\$11,813,332	\$12,505,467	\$187,608,353

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
Ten Years of Loss Development ending June 30, 2006  
Reported Claim Counts: Auto & General Liability

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
1997	1,926									
1998		2,317	2,436	2,478	2,485	2,489	2,490	2,490	2,490	2,490
1999		1,630	1,959	2,098	2,164	2,178	2,179	2,210	2,211	2,211
2000			1,824	2,197	2,333	2,385	2,397	2,467	2,467	2,471
2001				1,559	1,917	2,020	2,080	2,116	2,116	2,116
2002					2,189	2,549	2,627	2,706	2,716	2,718
2003						1,622	1,966	2,099	2,142	2,149
2004							1,889	2,191	2,297	2,330
2005								1,791	2,364	2,484
2006									1,346	1,674
Totals	1,926	3,947	6,219	8,332	11,088	13,243	15,628	18,070	20,149	21,795

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
Loss Development through June 30, 2006  
Paid Losses: Auto Physical Damage

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
1997 & prior										
1998	\$143,621	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218
1999		\$17,259	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288
2000			\$39,928	\$31,048	\$28,191	\$28,431	\$28,431	\$28,431	\$28,431	\$28,431
2001				\$130,302	\$139,359	\$138,379	\$137,759	\$137,759	\$137,759	\$137,759
2002					\$40,798	\$55,201	\$54,454	\$54,454	\$54,454	\$54,454
2003						\$66,921	\$102,888	\$102,888	\$102,888	\$102,888
2004							\$116,909	\$459,623	\$462,623	\$462,623
2005								\$72,579	\$161,809	\$158,384
2006									\$66,123	\$133,345
<b>Total</b>	<b>\$143,621</b>	<b>\$161,477</b>	<b>\$229,434</b>	<b>\$350,856</b>	<b>\$397,854</b>	<b>\$478,438</b>	<b>\$629,947</b>	<b>\$1,045,240</b>	<b>\$1,203,593</b>	<b>\$1,311,624</b>

Loss Payments During:

Accident Year	Loss Payments During:									
	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06
1997 & prior										
1998	\$32,204	\$597	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1999		\$17,259	\$28,029	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2000			\$39,928	(\$8,880)	(\$2,857)	\$240	\$0	\$0	\$0	\$0
2001				\$130,302	\$9,057	(\$980)	(\$620)	\$0	\$0	\$0
2002					\$40,798	\$14,403	(\$747)	\$0	\$0	\$0
2003						\$66,921	\$35,967	\$0	\$0	\$0
2004							\$116,909	\$342,714	\$3,000	\$0
2005								\$72,579	\$89,230	\$462,623
2006									\$66,123	(\$3,425)
<b>Total</b>	<b>\$32,204</b>	<b>\$17,856</b>	<b>\$67,957</b>	<b>\$121,422</b>	<b>\$46,998</b>	<b>\$80,584</b>	<b>\$151,509</b>	<b>\$415,293</b>	<b>\$158,354</b>	<b>\$108,031</b>
										<b>\$1,311,624</b>

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
 Loss Development through June 30, 2006  
 Case Reserves: Auto Physical Damage

Accident Year	Evaluation (as of) Date:										
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	
1997 & prior											
1998	\$8,314	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
1999		\$18,010	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2000			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2001				\$0	\$11,625	\$0	\$0	\$0	\$0	\$0	\$0
2002						\$15,000	\$0	\$0	\$0	\$0	\$0
2003							\$483,200	\$8,739	\$0	\$0	\$0
2004								\$11,395	\$1,073	\$0	\$0
2005									\$0	\$0	\$0
2006										\$780	\$780
Total	\$8,314	\$18,010	\$0	\$0	\$11,625	\$15,000	\$483,200	\$20,134	\$1,073	\$780	\$780

Loss Payments During:

Accident Year	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior											
1998	\$5,000	(\$8,314)	\$0		\$0	\$0	\$0	\$0	\$0	\$0	\$0
1999		\$18,010	(\$18,010)		\$0	\$0	\$0	\$0	\$0	\$0	\$0
2000			\$0		\$0	\$0	\$0	\$0	\$0	\$0	\$0
2001					\$11,625	(\$11,625)	\$0	\$0	\$0	\$0	\$0
2002						\$15,000	(\$15,000)	\$0	\$0	\$0	\$0
2003							\$483,200	(\$474,461)	(\$8,739)	\$0	\$0
2004								\$11,395	(\$10,322)	(\$1,073)	\$0
2005									\$0	\$0	\$0
2006										\$780	\$780
Total	\$5,000	\$9,696	(\$18,010)	\$0	\$11,625	\$3,375	\$468,200	(\$463,066)	(\$19,061)	(\$293)	\$780

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
Loss Development through June 30, 2006  
Reported Losses (Paid Losses Plus Case Reserves): Auto Physical Damage

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
1997 & prior	\$151,935	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218	\$144,218
1998		\$35,269	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288	\$45,288
1999			\$39,928	\$31,048	\$28,191	\$28,431	\$28,431	\$28,431	\$28,431	\$28,431
2000				\$130,302	\$139,359	\$138,379	\$137,759	\$137,759	\$137,759	\$137,759
2001					\$52,423	\$55,201	\$54,454	\$54,454	\$54,454	\$54,454
2002						\$81,921	\$102,888	\$102,888	\$102,888	\$102,888
2003							\$600,109	\$468,362	\$462,623	\$462,623
2004								\$83,974	\$162,882	\$158,384
2005									\$66,123	\$133,345
2006										\$45,014
Total	\$151,935	\$179,487	\$229,434	\$350,856	\$409,479	\$493,438	\$1,113,147	\$1,065,374	\$1,204,666	\$1,312,404

Accident Year	Incremental Losses Reported During:										Total
	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	
1997 & prior	\$37,204										\$144,218
1998		(\$7,717)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$45,288
1999		\$35,269	\$10,019	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$28,431
2000			\$39,928	(\$8,880)	(\$2,857)	\$240	\$0	\$0	\$0	\$0	\$137,759
2001				\$130,302	\$9,057	(\$980)	(\$620)	\$0	\$0	\$0	\$54,454
2002					\$52,423	\$2,778	(\$747)	\$0	\$0	\$0	\$102,888
2003						\$81,921	\$20,967	\$0	\$0	\$0	\$462,623
2004							\$600,109	(\$131,747)	(\$5,739)	\$0	\$158,384
2005								\$83,974	\$78,908	(\$4,498)	\$133,345
2006									\$66,123	\$67,222	\$45,014
Total	\$37,204	\$27,552	\$49,947	\$121,422	\$58,623	\$83,959	\$619,709	(\$47,773)	\$139,293	\$107,738	\$1,312,404



MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development ending June 30, 2006  
Reported Claim Counts: Auto Physical Liability

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
1997	500									
1998		529	529	529	529	529	529	529	529	529
1999		476	515	516	516	516	516	516	516	516
2000			539	572	573	573	573	573	573	573
2001				508	566	567	567	567	567	567
2002					633	691	691	691	691	692
2003						644	703	703	703	703
2004							606	651	653	654
2005								592	655	658
2006									558	601
										559
Total	500	1,005	1,583	2,125	2,817	3,520	4,185	4,822	5,445	6,052

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
Loss Development through June 30, 2006  
Paid Losses: Property

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
1997 & prior	\$10,144,194	\$10,415,863	\$10,667,454	\$10,657,914	\$10,655,555	\$10,652,099	\$10,646,236	\$10,640,757	\$10,637,301	\$10,634,421
1998		\$1,018,986	\$2,177,476	\$2,216,358	\$2,210,199	\$2,210,994	\$2,210,994	\$2,210,994	\$2,224,646	\$2,224,646
1999			\$1,714,797	\$2,572,710	\$2,802,646	\$2,802,646	\$2,802,646	\$2,802,646	\$2,812,384	\$2,812,384
2000				\$514,762	\$1,596,083	\$1,694,923	\$1,708,042	\$1,706,804	\$1,705,512	\$1,692,419
2001					\$1,276,841	\$1,998,274	\$2,007,619	\$2,007,029	\$2,007,753	\$2,006,718
2002						\$580,526	\$1,400,491	\$1,441,522	\$1,435,624	\$1,423,757
2003							\$1,967,582	\$2,835,856	\$2,887,945	\$2,887,090
2004								\$979,783	\$1,855,494	\$1,940,176
2005									\$1,180,564	\$1,918,647
2006										\$1,354,539
Total	\$10,144,194	\$11,434,849	\$14,559,727	\$15,961,743	\$18,541,324	\$19,939,463	\$22,743,610	\$24,625,391	\$26,747,224	\$28,894,797

Loss Payments During:										
Accident Year	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06
1997 & prior	\$2,088,830	\$271,669	\$251,591	(\$9,540)	(\$2,359)	(\$3,456)	(\$5,863)	(\$5,479)	(\$3,456)	(\$2,880)
1998		\$1,018,986	\$1,158,490	\$38,882	(\$6,159)	\$796	\$0	\$0	\$13,652	\$0
1999			\$1,714,797	\$857,913	\$229,936	\$0	\$0	\$0	\$9,738	\$0
2000				\$514,762	\$1,081,321	\$98,840	\$13,119	(\$1,238)	(\$1,291)	(\$13,093)
2001					\$1,276,841	\$721,433	\$9,345	(\$590)	\$724	(\$1,035)
2002						\$580,526	\$819,965	\$41,031	(\$5,898)	\$1,423,757
2003							\$1,967,582	\$868,274	\$52,089	(\$855)
2004								\$979,783	\$875,711	\$2,887,090
2005									\$1,180,564	\$84,682
2006										\$738,083
Total	\$2,088,830	\$1,290,655	\$3,124,878	\$1,402,017	\$2,579,580	\$1,398,139	\$2,804,148	\$1,881,781	\$2,121,832	\$2,147,573
										\$10,634,421
										\$2,224,646
										\$2,812,384
										\$1,692,419
										\$2,006,718
										\$1,423,757
										\$2,887,090
										\$1,940,176
										\$1,918,647
										\$1,354,539
										\$28,894,797

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Loss Development through June 30, 2006  
Case Reserves: Property

Accident Year	Evaluation (as of) Date:										
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	
1997 & prior											
1998	\$632,467	\$384,898	\$7,600	\$66,477	\$4,600	\$0	\$0	\$0	\$0	\$0	\$0
1999		\$608,668	\$41,586	\$9,073	\$210	\$0	\$0	\$0	\$0	\$0	\$0
2000			\$620,873	\$221,676	\$45	\$0	\$0	\$0	\$0	\$0	\$0
2001				\$844,013	\$73,259	\$9,778	\$0	\$0	\$0	\$0	\$0
2002					\$521,601	\$25,740	\$12,600	\$12,600	\$0	\$0	\$0
2003						\$1,013,331	\$81,343	\$17,381	\$12,600	\$0	\$0
2004							\$666,419	\$101,081	\$0	\$0	\$0
2005								\$481,171	\$76,108	\$0	\$0
2006									\$1,203,647	\$80,381	\$0
Total	\$632,467	\$993,566	\$670,059	\$1,141,239	\$599,715	\$1,048,849	\$760,362	\$612,233	\$1,292,355	\$550,767	

Loss Payments During:

Accident Year	Loss Payments During:										
	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	Total
1997 & prior											
1998	(\$182,852)	(\$247,569)	(\$377,298)	\$58,877	(\$61,877)	(\$4,600)	\$0	\$0	\$0	\$0	\$0
1999		\$608,668	(\$567,082)	(\$32,513)	(\$8,863)	(\$210)	\$0	\$0	\$0	\$0	\$0
2000			\$620,873	(\$399,197)	(\$221,631)	(\$45)	\$0	\$0	\$0	\$0	\$0
2001				\$844,013	(\$770,754)	(\$63,481)	(\$9,778)	\$0	\$0	\$0	\$0
2002					\$521,601	(\$495,861)	(\$13,140)	\$0	(\$12,600)	\$0	\$0
2003						\$1,013,331	(\$931,988)	(\$63,962)	(\$4,781)	(\$12,600)	\$0
2004							\$666,419	(\$565,338)	(\$101,081)	\$0	\$0
2005								\$481,171	(\$405,063)	(\$76,108)	\$0
2006									\$1,203,647	(\$1,123,266)	\$80,381
Total	(\$182,852)	\$361,099	(\$323,507)	\$471,180	(\$541,524)	\$449,134	(\$288,487)	(\$148,129)	\$680,122	\$470,386	\$550,767

**MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY**  
Loss Development through June 30, 2006  
Reported Losses (Paid Losses Plus Case Reserves): Property

Accident Year	Evaluation (as of) Date:										
	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06	
1997 & prior											
1998	\$10,776,661	\$10,800,761	\$10,675,054	\$10,724,391	\$10,660,155	\$10,652,099	\$10,646,236	\$10,640,757	\$10,637,301	\$10,634,421	
1999		\$1,627,654	\$2,219,062	\$2,225,431	\$2,210,409	\$2,210,994	\$2,210,994	\$2,210,994	\$2,224,646	\$2,224,646	
2000			\$2,335,670	\$2,794,386	\$2,802,691	\$2,802,646	\$2,802,646	\$2,802,646	\$2,812,384	\$2,812,384	
2001				\$1,358,775	\$1,669,342	\$1,704,701	\$1,708,042	\$1,706,804	\$1,705,512	\$1,692,419	
2002					\$1,798,442	\$2,024,014	\$2,020,219	\$2,019,629	\$2,007,753	\$2,006,718	
2003						\$1,593,858	\$1,481,834	\$1,458,903	\$1,448,224	\$1,423,757	
2004							\$2,634,001	\$2,936,937	\$2,887,945	\$2,887,090	
2005								\$1,460,954	\$1,931,602	\$1,940,176	
2006									\$2,384,211	\$1,999,028	
Total	\$10,776,661	\$12,428,415	\$15,229,786	\$17,102,982	\$19,141,039	\$20,988,312	\$23,503,972	\$25,237,624	\$28,039,579	\$29,445,564	

Accident Year	Incremental Losses Reported During:										Total
	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	
1997 & prior											
1998	\$1,905,978	\$24,100	(\$125,707)	\$49,337	(\$64,236)	(\$8,056)	(\$5,863)	(\$5,479)	(\$3,456)	(\$2,880)	\$10,634,421
1999		\$1,627,654	\$591,408	\$6,369	(\$15,022)	\$586	\$0	\$0	\$13,652	\$0	\$2,224,646
2000			\$2,335,670	\$458,716	\$8,305	(\$45)	\$0	\$0	\$9,738	\$0	\$2,812,384
2001				\$1,358,775	\$310,567	\$35,359	\$3,341	(\$1,238)	(\$1,291)	(\$13,093)	\$1,692,419
2002					\$1,798,442	\$225,572	(\$3,795)	(\$590)	(\$11,876)	(\$1,035)	\$2,006,718
2003						\$1,593,858	(\$112,023)	(\$22,931)	(\$10,679)	(\$24,467)	\$1,423,757
2004							\$2,634,001	\$302,936	(\$48,992)	(\$855)	\$2,887,090
2005								\$1,460,954	\$470,648	\$8,574	\$1,940,176
2006									\$2,384,211	(\$385,183)	\$1,999,028
Total	\$1,905,978	\$1,651,754	\$2,801,371	\$1,873,197	\$2,038,056	\$1,847,273	(\$118,340)	(\$30,238)	(\$3,913)	\$1,824,925	\$29,445,564

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Ten Years of Loss Development ending June 30, 2006  
Reported Claim Counts: Property

Accident Year	Evaluation (as of) Date:									
	6/30/97	6/30/1998	6/30/1999	6/30/2000	6/30/01	6/30/2002	6/30/2003	6/30/2004	6/30/2005	6/30/2006
1997	234									
1998		268	271	271	271	271	271	271	271	271
1999		235	285	285	285	285	285	285	285	285
2000			287	324	328	328	328	328	328	328
2001				239	289	292	293	293	293	293
2002					290	345	349	349	349	349
2003						277	332	333	335	335
2004							321	358	362	362
2005								312	369	369
2006									278	333
										292
Total	234	503	843	1,119	1,463	1,798	2,179	2,529	2,870	3,217

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

COMPARATIVE STATEMENT OF  
REVENUES, EXPENSES AND FUND BALANCES  
GENERAL FUND  
FOR THE TEN YEARS JUNE 30, 1997 THROUGH JUNE 30, 2006

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>REVENUES</b>					
Member Contributions	\$26,656,472	\$27,889,353	29,237,845	\$30,599,127	\$31,506,662
Other Income	1,135,915	733,490	756,309	719,181	974,977
Investment Income (Loss)	<u>8,804,726</u>	<u>21,691,335</u>	<u>10,865,350</u>	<u>14,696,041</u>	<u>(14,951,155)</u>
<i>Total Revenues</i>	<u>36,597,113</u>	<u>50,314,178</u>	<u>40,949,504</u>	<u>46,014,349</u>	<u>17,530,484</u>
<b>EXPENSES</b>					
Claims & Legal Expenses Paid	11,279,647	13,949,027	15,755,297	11,342,683	17,214,650
Increase (Decrease) in Reserves for Reported Losses & Legal Expense	1,780,205	376,050	3,625,627	1,148,496	1,894,147
Increase (Decrease) in Reserves for Claims Incurred But Not Reported	5,067,392	(2,945,520)	5,788,796	2,107,027	(6,123,322)
Reinsurance and Other Expenses	<u>11,321,617</u>	<u>11,489,450</u>	<u>13,012,908</u>	<u>14,881,918</u>	<u>15,415,567</u>
<i>Total Expenses</i>	<u>29,448,861</u>	<u>22,869,007</u>	<u>38,182,628</u>	<u>29,480,124</u>	<u>28,401,042</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>	7,148,252	27,445,171	2,766,876	16,534,225	(10,870,558)
<b>NET ASSETS, Beginning of Year</b>	30,245,627	46,043,918	73,489,089	76,255,965	92,790,190
Unrealized Appreciation of Investments	8,650,039	-----	-----	-----	-----
<b>NET ASSETS, End of Year</b>	<u>\$46,043,918</u>	<u>\$73,489,089</u>	<u>\$76,255,965</u>	<u>\$92,790,190</u>	<u>\$81,919,632</u>

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

**COMPARATIVE STATEMENT OF  
REVENUES, EXPENSES AND FUND BALANCES  
GENERAL FUND  
FOR THE TEN YEARS ENDED JUNE 30, 1997 THROUGH JUNE 30, 2006**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>REVENUES</b>					
Member Contributions	\$35,849,700	\$41,691,304	\$48,281,979	\$49,758,286	\$51,119,008
Other Income	986,051	1,153,100	1,378,206	1,292,639	1,670,243
Investment Income (Loss)	<u>(3,769,786)</u>	<u>6,559,221</u>	<u>19,865,845</u>	<u>14,488,445</u>	<u>11,287,358</u>
<i>Total Revenues</i>	<u>33,065,965</u>	<u>49,403,625</u>	<u>69,526,030</u>	<u>65,539,370</u>	<u>64,076,609</u>
<b>EXPENSES</b>					
Claims & Legal Expenses Paid	15,823,033	17,950,227	13,830,482	12,400,970	11,740,640
Increase (Decrease) in Reserves for Reported Losses & Legal Expense	273,404	(3,347,662)	1,314,570	2,898,756	2,328,686
Increase (Decrease) in Reserves for Claims Incurred But Not Reported and ULAE	11,361,923	(656,498)	2,992,694	1,080,160	9,737,646
Reinsurance and Other Expenses	<u>20,627,870</u>	<u>21,736,841</u>	<u>23,191,125</u>	<u>23,663,085</u>	<u>27,367,666</u>
<i>Total Expenses</i>	<u>48,086,230</u>	<u>35,682,908</u>	<u>41,328,871</u>	<u>40,042,971</u>	<u>51,174,638</u>
<b>REVENUES OVER (UNDER) EXPENSES</b>	(15,020,265)	13,720,717	28,197,159	25,496,399	12,901,971
Distribution to Members	----	----	----	----	3,696,996
<b>NET ASSETS, Beginning of Year</b>	81,919,632	66,899,367	76,437,978	104,635,137	130,131,536
Unrealized Appreciation of Investments	----	----	----	----	----
Prior Period Adjustment <sup>2</sup>	----	(4,182,106)	----	----	----
<b>NET ASSETS, End of Year</b>	<u>\$66,899,367</u>	<u>\$76,437,978</u>	<u>\$104,635,137</u>	<u>\$130,131,536</u>	<u>\$139,336,511</u>

(2) Prior period adjustment for Unallocated Loss Adjustment Expenses. See Note 7 of the Audited Financial Statement.

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Reported Loss History (Paid Losses Plus Case Reserves)  
For the Ten-Years Ended June 30, 2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Auto & Gen Liab	\$15,535,321	\$13,935,251	\$8,910,180	\$15,100,470	\$11,614,295	\$10,169,239	\$11,642,730	\$9,742,936	\$6,745,729	\$1,484,772
Property	\$1,693,369	\$2,224,646	\$2,812,384	\$1,692,419	\$2,006,718	\$1,423,757	\$2,887,090	\$1,940,176	\$1,999,028	\$1,824,925
Auto Phys. Liability	\$22,060	\$45,288	\$28,431	\$137,759	\$54,454	\$102,888	\$462,623	\$158,384	\$133,345	\$45,014
Total	\$17,250,750	\$16,205,185	\$11,750,995	\$16,930,648	\$13,675,467	\$11,695,884	\$14,992,443	\$11,841,496	\$8,878,102	\$3,354,711
Avg. Cost per claim	\$5,243	\$5,380	\$3,485	\$5,689	\$3,638	\$3,670	\$4,481	\$3,373	\$3,404	\$1,675



MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Claim Activity  
for the Ten-Year Period Ended June 30, 2006

In the last ten of the twenty one years in which MMRMA has been retaining risk, it's members have incurred the following number of claims, which reflects the impact of changes in total membership.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Auto & Gen. Liability										
Property	2,490	2,211	2,471	2,116	2,718	2,149	2,330	2,484	1,674	1,152
Auto Phys. Liability	271	285	328	293	349	335	362	369	333	292
	529	516	573	567	692	703	654	658	601	559
Total	3,290	3,012	3,372	2,976	3,759	3,187	3,346	3,511	2,608	2,003
Claims Settled										
Claims Pending	3,286	3,002	3,362	2,947	3,722	3,115	3,255	3,285	2,368	1,478
	4	10	10	29	37	72	91	226	240	525
Total	3,290	3,012	3,372	2,976	3,759	3,187	3,346	3,511	2,608	2,003
Member Count	282	290	332	310	329	337	337	341	342	339

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY  
Member Growth Analysis  
for the Ten-Year Period Ended June 30, 2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total Number of Members	282	290	332	310	329	337	337	341	342	339
Total Member Assessments	\$27,791,762	\$28,621,720	\$28,987,990	\$29,794,829	\$30,851,576	\$34,822,497	\$40,663,602	\$47,749,641	\$50,781,467	\$52,586,108
Total Number of Claims	3,290	3,012	3,372	2,976	3,759	3,187	3,346	3,511	2,608	2,003
Total Incurred Losses	\$17,250,750	\$16,205,185	\$11,750,995	\$16,930,648	\$13,675,467	\$11,695,883	\$14,992,442	\$11,841,496	\$8,878,103	\$3,354,711

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

2006 SCOPE OF COVERAGES

The major categories of insurance protection MMRMA provides its Members are as follows:

**PROPERTY**

- Real Property
- Personal Property
- Fine Arts
- Inland Marine
- Electronic Data Processing Equipment
- Boilers and Machinery
- Income/Extra Expense
- Earthquake
- Flood
- Debris Removal
- Accounts Receivable
- Valuable Papers
- Storm or Sanitary Sewer Backup

**GENERAL LIABILITY**

- Comprehensive General Liability
- Public Officials Liability
- Police Professional Liability
- Contractual Liability
- Judicial Tenure
- Volunteer Medical Payments
- First Aid Coverage

**AUTOMOBILE LIABILITY**

- Bodily Injury
- Property Damage
- Personal Injury
- Michigan No-Fault
- Uninsured/Under-insured Motorist Coverage

**CRIME**

- Broad Form Money and Securities
- Employee Fidelity & Faithful Performance
- Depositors Forgery
- Public Official Bonds

**AUTO PHYSICAL DAMAGE**

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

**LIABILITY REINSURANCE PORTFOLIO: April 1, 2005 - March 31, 2006**

Reinsurer	Net Premiums Written (\$000)	Policyholders' Surplus (\$000)	A.M. Best Rating
Partner Reins Company of the U.S.	\$678,255	\$565,622	A+
Liberty Mutual Insurance Co.	7,046,397	7,924,697	A
ACE Property & Casualty Ins. Co.	1,364,200	1,203,361	A+
GE Reinsurance Corporation	392,010	1,041,447	A
Government Entities Mutual, Inc.	8,203	14,061	NR-1

**LIABILITY REINSURANCE PORTFOLIO: April 1, 2006 - March 31, 2007**

Reinsurer	Net Premiums Written (\$000)	Policyholders' Surplus (\$000)	A.M. Best Rating
ACE Property & Casualty Ins. Co.	\$1,364,200	\$1,203,361	A+
Partner Reins. Company of the U.S.	678,255	565,622	A+
Liberty Mutual Insurance Co.	7,046,397	7,924,697	A
Government Entities Mutual, Inc.	8,203	14,061	NR-1
GE Reinsurance Corporation	392,010	1,041,447	A
XL Reinsurance America, Inc.	515,417	1,856,151	A+
London Syndicates	Not available	Not available	Not available

**PROPERTY REINSURANCE PORTFOLIO: July 1, 2005 - June 30, 2006**

Reinsurer	Net Premiums Written (\$000)	Policyholders' Surplus (\$000)	A.M. Best Rating
ACE Bermuda Insurance Ltd.	561,708	2,331,786	A+
Underwriters at Lloyd	Not available	Not available	Not available
The Travelers Indemnity Co.	3,800,130	5,940,310	A+
Government Entities Mutual, Inc..	8,203	14,061	NR-1

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

2006 COVERAGE OVERVIEW  
LIABILITY COVERAGE

Layer 1      \$925,000 xs SIR. Retained 100% by MMRMA

Layer 2      \$4,000,000 xs \$1,000,000. Beginning April 1, 2005, this layer is subject to an aggregate deductible for losses otherwise recoverable of \$4,000,000.

April 1, 2005 - March 31, 2006

GE Reinsurance Corp.	50%
ACE Prop. & Cas. Co.	30%
Partner Reins. Co.	<u>20%</u>
	100%

April 1, 2006 - March 31, 2007

GE Reinsurance Corp.	50%
ACE Prop. & Cas. Co.	30%
Partner Reins. Co. of U.S.	<u>20%</u>
	100%

Layer 3      \$5,000,000 xs \$5,000,000

April 1, 2005 - March 31, 2006

GE Reinsurance Corp.	50%
Government Entities Mutual	20%
Liberty Mutual	15%
Partner Reins. Co.	10%
ACE Prop. & Cas. Co.	<u>5%</u>
	100%

April 1, 2006 - March 31, 2007

GE Reinsurance Corp.	50%
Govt. Entities Mutual	20%
Liberty Mutual	15%
Partner Reins. Co.	10%
ACE Prop. & Cas. Co.	<u>5%</u>
	100%

Layer 4      \$5,000,000 xs \$10,000,000

April 1, 2005 - March 31, 2006

GE Reinsurance Corp.	40%
ACE Prop. & Cas. Co.	30%
Liberty Mutual	20%
Govt. Entities Mutual	<u>10%</u>
	100%

April 1, 2006 - March 31, 2007

GE Reinsurance Corp.	40%
ACE Prop. & Cas. Co.	30%
Liberty Mutual Ins. Co.	20%
Govt. Entities Mutual	<u>10%</u>
	100%

Layer 5      \$5,000,000 xs \$15,000,000 (Clash Coverage)

April 1, 2005 - March 31, 2006

N/A

April 1, 2006 - March 31, 2007

London Syndicates	100%
-------------------	------

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

PROPERTY COVERAGE  
July 1, 2005 - June 30, 2006

Layer 1	90% of first \$100,000. Retained 100% by MMRMA	
Layer 2	\$4,000,000 xs \$1,00,000. Retained 100% by MMRMA.	
Layer 3	\$10,000,000 xs \$500,000	
	ACE Limited	42.5%
	Travelers	42.5%
	GEM	<u>15%</u>
		100%
Layer 4	\$65,000,000 xs \$10,000,000	
	ACE Limited	50%
	Travelers	<u>50%</u>
		100%
Layer 5	\$125,000,000 xs \$75,000,000	
	Lloyds	100%
Terrorism	\$25,000,000 per occurrence xs \$500,000	
	Travelers	100%

AUTO PHYSICAL DAMAGE COVERAGE

\$1,485,000 xs 15,000; Retained 100% by MMRMA

Michigan Municipal Risk Management Authority  
Comprehensive Annual Financial Report - June 30, 2006

GLOSSARY

**Accident Period** - Period that includes the date of occurrence of loss, regardless of the report and payment dates.

**ALAE (Allocated Loss Adjustment Expenses)** - Attorneys' fees, investigative fees, etc., associated with individual claims.

**CAFR** - Comprehensive Annual Financial Report.

**Case Reserve** - A claim administrator's estimate of the future payments on a known case.

**Case Reserve Development** - Changes in reserve amounts on known cases as more information becomes available over time.

**Development Triangles** - Information on number of claims or amounts of losses organized into triangular form for determination of development factors.

**Discount Factor** - Factor to decrease the amount of money required at some future date so that the discounted current amount plus accrued interest will equal the required amount at the future date.

**GAAP** - Generally accepted accounting principles.

**GASB** - Governmental Accounting Standards Board.

**Incurred Losses** - Sum of paid losses and case reserves, including ALAE.

**IBNR (Incurred But Not Reported)** - Losses that have not been reported, arising out of claims that have occurred. This includes both losses for claims that have not been reported and case reserve development of reported claims.

**ULAE (Unallocated Loss Adjustment Expense)** - Cost of handling claims not directly attributable to individual claims.

**Ultimate Losses** - An estimate of the total dollar amount, including ALAE, that will be paid on a particular set of claims.